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Nation's Business

VOLUME 66 • NUMBER 7 • JULY 1978

Nation's Business is the business advocate magazine leading the effort to strengthen the private enterprise system to advance human progress.

19 Taxpayers in Revolt

24 What to Expect in the Off-Year Elections

29 How the Clean Air Law Can Choke Industry

LESSONS OF LEADERSHIP

40 From One Secondhand Truck to a Giant Truckline

BUSINESS CONFIDENCE SURVEY

47 Growing Fear of Double-Digit Inflation

49 The Unknown Cost of Doling Out Federal Dollars

NATION'S BUSINESS INDUSTRY SPECIAL REPORT

56 Defense: How Much Is Enough?

65 Rescue for the Inflation-Weary Taxpayer?

7 The Nation's Business Washington Letter

JAMES J. KILPATRICK

11 Why Drives to Limit Taxes Are Spreading

SOUND OFF TO THE EDITOR

15 An Income Tax Offset for Inflation?

BUSINESS LIFE-STYLE

50 The Sound of Wings

PEOPLE IN BUSINESS

69 Success Despite Sour Notes

BUSINESS: A LOOK AHEAD

74 New Fed Chairman's Eight-Point Plan

Departments

7 Washington Letter

9 Letters to the Editor

11 James J. Kilpatrick

15 Sound Off to the Editor

16 Sound Off Response

50 Business Life-Style

69 People in Business

74 Business: A Look Ahead

76 Editorial

Cover Photo: Christopher Springmann—Black Star

Nation's Business is published monthly at 1615 H Street N.W., Washington, D. C. 20062 by the Chamber of Commerce of the United States. Editorial and circulation headquarters—1615 H Street N.W., Washington, D. C. 20062; Editorial—(202) 659-6010; Circulation—(202) 659-6020. Advertising headquarters—711 Third Avenue, New York, N. Y. 10017; telephone (212) 557-9886.

Subscription rates: United States and possessions, \$49.75 for three years; in Canada, \$20 a year. Printed in U. S. A. Second class postage paid at Chicago, Ill.

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"Why kid anyone? I smoke because I enjoy it. I'm the kind of guy who gets pleasure out of a cigarette. But I'm not deaf to what's being said about tar.

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Miami, Florida



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Kelly looked for a few ways to help keep your business running smoothly and came up with 108.

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4. Mail Clerk (103)
5. General Clerk (104)
6. Senior Clerk (110)
7. Records Clerk (115)
8. Tabulation Clerk (120)
9. Statistical Clerk (125)
10. Credit Clerk (130)
11. Typist, Other (200)
12. Clerk Typist (201)
13. Junior Typist (202)
14. Typist (210)
15. Senior Typist (215)
16. Forms Typist (220)
17. Statistical Typist (225)
18. Senior Statistical Typist (226)
19. Junior Transcription Typist (230)
20. Transcription Typist (231)
21. Junior Shorthand Typist (235)
22. Shorthand Typist (236)
23. Technical Typist (240)
24. Technical Transcription Typist (241)
25. Technical Shorthand Typist (242)
26. Secretary, Other (300)
27. Junior Secretary (301)
28. Secretary (310)
29. Secretary/Transcription (330)
30. Secretary/Shorthand (335)
31. Technical Secretary (340)
32. Technical Secretary/Transcription (341)
33. Technical Secretary/Shorthand (342)
34. Executive Secretary (350)
35. Accounting, Other (400)
36. Payroll Clerk (401)
37. Accounting Clerk (405)
38. Bookkeeping/Billing Machine Operator (410)
39. Bookkeeper/Assistant (420)
40. Bookkeeper/Full Charge (421)
41. Word Processing, Other (500)
42. Data Entry (501)
43. Junior Word Processing Typist (Trainee) (505)
44. Word Processing Typist (510)
45. Word Processing Statistical Typist (520)
46. Word Processing Senior Statistical Typist (521)
47. Word Processing Transcription Typist (530)
48. Word Processing Shorthand Typist (535)
49. Technical Word Processing Typist (540)
50. Technical Word Processing Transcription Typist (541)
51. Technical Word Processing Shorthand Typist (542)
52. Word Processing Proofreader (550)
53. Word Processing Technical Proofreader (551)
54. Miscellaneous, Other (600)
55. Receptionist (601)
56. Receptionist, Typist (602)
57. Switchboard Operator/Small Console (610)
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59. Switchboard Operator/PBX (612)
60. Switchboard Operator/PBX Typist (613)
61. Switchboard Operator/PBX Special (614)
62. Business Machine Operator (620)
63. Bank Teller (630)
64. Bank Proof Machine Operator (631)
65. Junior Key punch Operator (640)
66. Senior Key punch Operator (641)
67. Marketing, Other (700)
68. Host/Hostess (701)
69. Registration Clerk (702)
70. Message Center Clerk (703)
71. General Convention Clerk (704)
72. Narrator/Tour Guide (705)
73. Booth Attendant (706)
74. Product Distributor (710)
75. Product Demonstrator (711)
76. Product Demonstrator/Salesperson (712)
77. Product Salesperson (713)
78. Traffic Surveyor (720)
79. Store Surveyor (721)
80. Telephone Surveyor (722)
81. Door-To-Door Surveyor (723)
82. On-The-Street Surveyor (724)
83. Comparison Shopper (730)
84. Performance Shopper (731)
85. Merchandise Clerk (740)
86. Display Clerk (741)
87. Demonstrator/Trainer (742)
88. Inventory Counter (750)
89. Light Industrial, Other (800)
90. Assembler (801)
91. Assembler - Printed Circuit/Electronic (802)
92. Bindery Worker (803)
93. Blueprint Worker (804)
94. Cardboard Box Worker (805)
95. Cafeteria Worker (806)
96. Conveyor Line Attendant (807)
97. Food Service Worker (808)
98. Inventory Taker (810)
99. Laundry Worker (811)
100. Machine Tender (812)
101. Hand Packager (820)
102. Machine Packager (821)
103. Blister Packager (822)
104. Skin or Shrink Packager (823)
105. Heat Sealer (824)
106. Printing Plant Worker (830)
107. Plastic Worker (831)
108. Stock Picker and Packer (840)

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SERVICES

The Nation's Business

WASHINGTON LETTER

► STRIKING VICTORY FOR BUSINESS on labor law reform.

Senate filibuster worked--for now.

Legislation was aimed at making it easier for labor unions to organize.

On June 22, weeks of debate ended with vote to recommit measure to committee for further study.

Note: No question that vote to put issue back in committee was a victory. But big labor unions going all-out to get measure back on Senate floor.

Forces led by National Chamber not letting down, expect further fight.

► THE FUSE IS BURNING. Nearly 30 states are embroiled in tax-reducing, less-government-spending issues in one form or another.

In California last month, the fuse reached the bomb--and it went off.

Proposition 13 was what Californians voted on--overwhelmingly--to roll back real estate taxes.

But basic issue was outcry against outrageous jump in taxes in recent years, everywhere and with everything.

► MUZZLE GOVERNMENT SPENDING was clear message in Tennessee four months ago when voters approved proposal--by two to one--to prohibit state spending above growth of state economy.

In Colorado last year, voters passed law limiting state budget to seven percent increase yearly.

But efforts in other states to cut taxes, government spending may not be easy to accomplish. Some states do not allow initiating laws by ballot--as in California--and moves to do so must go through state legislatures.

► PROBLEMS AHEAD FOR BUSINESS?

Our sources tell us some lawmakers

in California--while professing to hold line on government spending--are not indicating this in private.

Cutting back government spending, thus fewer services to constituents, is no easy task once politicians start thinking of next election.

To make up for drop in revenues to local and state coffers, other sources of income will be necessary.

One possible target: business.

Something you should be aware of.

► TAXPAYERS' OUTCRY not fully heard on Capitol Hill--yet--though federal government eats two thirds of all recent tax increases.

National lawmakers put on show of fiscal responsibility last month with preliminary moves to cut agency budgets. But budget cuts they talk about, and vote on, are minuscule in total budget picture.

Federal budget still carries huge deficit.

Office of Management and Budget expects deficit this fiscal year to be about \$50 billion.

Congress earlier anticipated deficit of \$61.2 billion--which would imply possible savings.

But real reason for difference?

Federal agencies can't spend money as fast as it was thought they could.

► REMINDER: Old consumer price index discontinued, as of June 30.

We told you about this in February's Washington Letter.

In its place: two indexes, one covering U. S. urban population, the other aimed at blue-collar workers.

Bureau of Labor Statistics official told us figures running slightly higher under new system than under

system dropped June 30. But he called difference insignificant. New indexes first published in February.

► **NATIONAL HEALTH INSURANCE** debate will pick up steam this summer, fall.

Reason? White House principles on national health insurance expected about first of this month.

Business seeks to contain health-care costs before getting into issue of reforming America's health-care system. Costs estimated rising at yearly rate of 15 percent.

► **HERE'S WHITE HOUSE TIMETABLE** on health insurance:

Release of principles this month, followed by tentative health insurance plans which may be given to key congressional leaders for possible later hearings. Then, introduction of legislation by February of next year.

President hopes to enact national health insurance bill by 1980, to be implemented by 1982. It would be phased in over period of four to ten years.

First phase: federal takeover of an expanded Medicaid program with possible inclusion of catastrophic coverage. White House estimates first phase will cost \$7 billion from general revenues.

► **PEOPLE WHO RUN COMPANIES** say major cause of inflation is government.

New National Chamber-Gallup business confidence survey reveals:

Size of federal deficit very important cause of inflation. Also ranked high are government increases in Social Security, federal pay, federal minimum wage, farm price supports, unemployment insurance, workmen's compensation.

Survey shows union wage increases are held to be second in importance to high federal deficit as cause of inflation.

► **ITEM:** Inflation Watch, Productivity Center two new elements being introduced in National Chamber's Economic Policy Group.

Purpose: to put National Chamber economics experts to work on reducing inflation, inflationary pressures via extensive research. This will result in

recommendations to Congress and others on getting inflation under control.

Productivity Center will evaluate trends, inform business of ways to raise productivity. This help also to be available--via policy recommendations--to federal, state, local governments.

► **TELEPHONE SOLICITATION** issue may be subject of hearings before House committee later this summer.

At issue is matter some label junk telephone calls.

No one really knows full extent of business transacted via direct phone solicitations, but expert in field says telephone accounts for more than \$50 billion in completed sales in U. S. annually.

Also, Federal Communications Commission seeks testimony on whether FCC should get involved in regulating telephone solicitations.

National Chamber has called on FCC to move cautiously in this area, says it should first decide whether national problem exists.

Crux of controversy is automatic dial machines and recorded sales messages--but issue could affect many calls your company makes, could become very costly.

► **TAX REFORM** issue is complex, difficult for experts, let alone lay persons.

Here's something which may be helpful to you: "Business Desk Book of Tax Reform."

Booklet intended as quick reference for business people on major issues of federal income tax reform. It also gives views of business community as seen by National Chamber membership.

Cost is \$1 each, 75 cents for ten or more copies. Order from National Chamber.

► **POSTAL STRIKE STILL POSSIBLE.**

Agreements expire July 20 for 600,000 employees.

If you're a big mailer, you could have problems. Our sources tell us Postal Service has plan to put in operation in event of strike. But mail service is sure to be disrupted if employees walk out.

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FORD DIVISION

U. S. Sets Pace in Manufacturing Output

Though trends in manufacturing productivity and unit labor costs were less favorable last year than in 1976, the U. S. economy performed better than those of six other industrial nations surveyed by the Bureau of Labor Statistics.

Preliminary BLS estimates of percentage changes in productivity (labor output per man-hour) and unit labor costs (cost of labor per unit of output) show the U. S. had a 2.2 percent gain in productivity and a 6.5 percent increase in unit costs in 1977. The 1976 performance was better: a 6.8 percent hike in productivity and only a 1.7 percent increase in unit costs.

Four of the other countries showed greater productivity increases, and three showed lower increases in unit costs. However, the U. S. had the highest rate of increase in total manufacturing output—5.9 percent. Japan was in second place with 4.5 percent.

Japan's productivity rose 6.1 percent last year, as against a whopping 13 percent increase in 1976, BLS says. Japanese unit costs rose 3.3 percent in 1977, after dropping 3.7 percent the year before.

BLS says the pattern shown by most of the countries was typical of a period following a recession such as the industrialized world experienced in 1974 and 1975.

Productivity usually advances sharply in the early stages of a recovery and then slows as existing capacity becomes more fully utilized and less-experienced workers are hired. Unit labor costs usually decline or increase moderately at the beginning of a recovery and then rise with the productivity slowdown.

Productivity statistics for the other survey countries in 1977 show increases of around four percent in Canada, France, and Germany, a rise of 0.5

percent in Italy, and a 1.6 percent decline in Britain.

Unit labor costs rose between five and six percent in Canada and Germany, 8.5 percent in France, nearly 12 percent in Britain, and more than 20 percent in Italy. The increases were less last year for Canada and Britain than in 1976, but not for the others. Unit costs declined two percent in Germany in 1976.

Much of the increase in U. S. manufacturing output came from increasing employment and hours. Manufacturing employment climbed 3.2 percent and total hours, 3.6 percent. Among the other countries, only Canada and Britain showed an increase in employment, and only Italy and Britain increased total employee hours.

Since the last recession, BLS says, the U. S. has been the only one of the seven countries to show a significant increase in either employment or total hours.

BLS says foreign countries have been able to increase productivity more than the U. S. in recent years because they could adopt technology already adopted in the U. S., which is still believed to have the world's highest productivity level. BLS points out that Japan's soaring advances have slowed as her productivity has gotten closer to U. S. levels. •



This photovoltaic concentrator system could provide heat for attractions at Sea World, Fla., by 1981. Designed by the General Electric space division at Valley Forge, Pa., these 33-kilowatt turnable modules will convert sunlight into electricity as part of an Energy Department program to drop the cost per watt from photovoltaic devices from the current \$12 to 50 cents by 1986.

DOE Sets Appliance Efficiency Standards

The Department of Energy has adopted energy efficiency improvement targets for nine appliances as part of a program to reduce total appliance energy consumption 20 percent by 1980.

The targets are: refrigerators, 39 percent; freezers, 28 percent; dishwashers, 25 percent; gas clothes dryers, 18 percent; electric clothes dryers, four percent; room air conditioners, 28 percent; televisions, 79 percent; dehumidifiers, 19 percent; and central air conditioners, 21 percent. The department



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ment says that it is considering adopting targets for five other appliances: water heaters, 23 percent; space heating equipment, 13 percent; furnaces, 23 percent; kitchen ranges and ovens, 64 percent; and clothes washers, 47 percent.

Although participation in the program is still voluntary for manufacturers, one part of President Carter's energy bill approved by a House-Senate conference committee would require DOE to establish a mandatory program within two years of enactment of the bill. •

Sawdust Replaces Gas as Mill Power Source

Natural gas has been elbowed out by sawdust as a power source at a Georgia-Pacific Corp. plywood mill in Eugene, Oregon.

Sawdust is collected from mill sanders, mixed with air in twin two-story heat cells, and ignited. It burns at about 1,000 degrees Fahrenheit. The resulting heat—about 40 million BTU's per hour—is used to dry veneers and wall paneling finishes produced at the mill.

Spokesman Tom Ryan explains that natural gas had previously been employed in the drying process. With G-P utilizing its waste wood dust, he estimates that the company will save about 80 percent on its energy bill at the mill.

In addition to substantial reductions in natural gas costs, the new system eliminates the environmental impact and cost of sander dust disposal, he says. And since the process converts close to 100 percent of the dust into energy, it places the plant well within strict environmental air quality standards.

Power now produced in one hour from dust combustion at the mill is equal to the electrical requirements of the average American home for 16 months, according to Vincent Tretter, G-P's chief engineer for energy and the environment. The idea is working so well, he says, that the company plans a similar installation at its plywood mill in Toledo, Oregon, as part of a nationwide energy and environmental program.

The regular milling process does not produce enough sawdust for fuel. So at the Eugene plant, G-P has installed a hammer mill to pulverize plywood trimmings and other waste into more dust. In order to supply the Toledo 8D

plant with enough of the dust, waste wood will actually have to be imported from other areas. •

More Spirited Sales of Distilled Products

Consumption of distilled spirits rebounded slightly last year, while most trends in American drinking tastes remained unchanged.

Total shipments were up 1.2 percent to 442 million gallons in 1977, but, according to "IMPACT," a newsletter that reports on the distilled spirits industry, whiskey continued its downslide, off 1.7 percent to 219 million gallons.

White goods—vodka, gin, rum, and

Marvin R. Shanken, "IMPACT" editor, says 1977 data "suggests an improving environment for the distilled spirits industry. The best news is that the industry seems to have, at least temporarily, stopped the shipment declines that have become rather routine."

Total shipments, which reached 446 million gallons in 1975, dipped to 437 million in 1976 before last year's rebound.

The 1977 consumption increase, notes the Distilled Spirits Council of the U.S., Inc., fell behind the 1.9 percent growth in number of drinkers of legal age during the year. The council says this is evidence of industry success in urging moderate use of alcoholic beverages. •



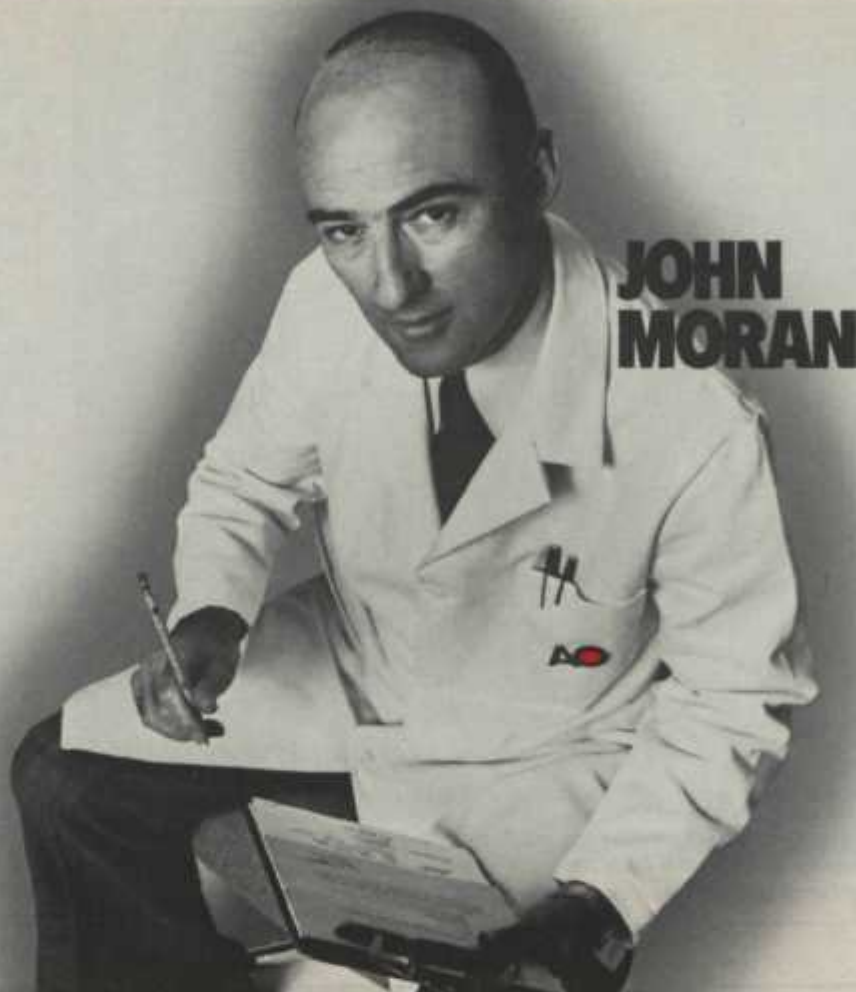
Aluminum rolling mills ran at an average of about 88 percent of capacity in 1977, and this year the rate could increase to around 93 percent. Above: Aluminum plate enters an annealing furnace at Kaiser Aluminum's Ravenswood, W. Va., works.

tequila—provided a positive push, up 4.2 percent to 165 million gallons.

Rum led the white goods category with an 8.5 percent gain; gin was up five percent; and tequila, 6.5 percent. Vodka shipments, which have more than doubled in the past decade, were up only a modest 2.5 percent, partially due to the increased use of white wine as a cocktail.

High Production Outlook for Aluminum Industry

Domestic aluminum shipments are expected to increase some six percent in 1978 over last year's volume, with plants in the Pacific Northwest running near 100 percent of capacity. Overall, the industry should operate at about 93 percent of capacity this year



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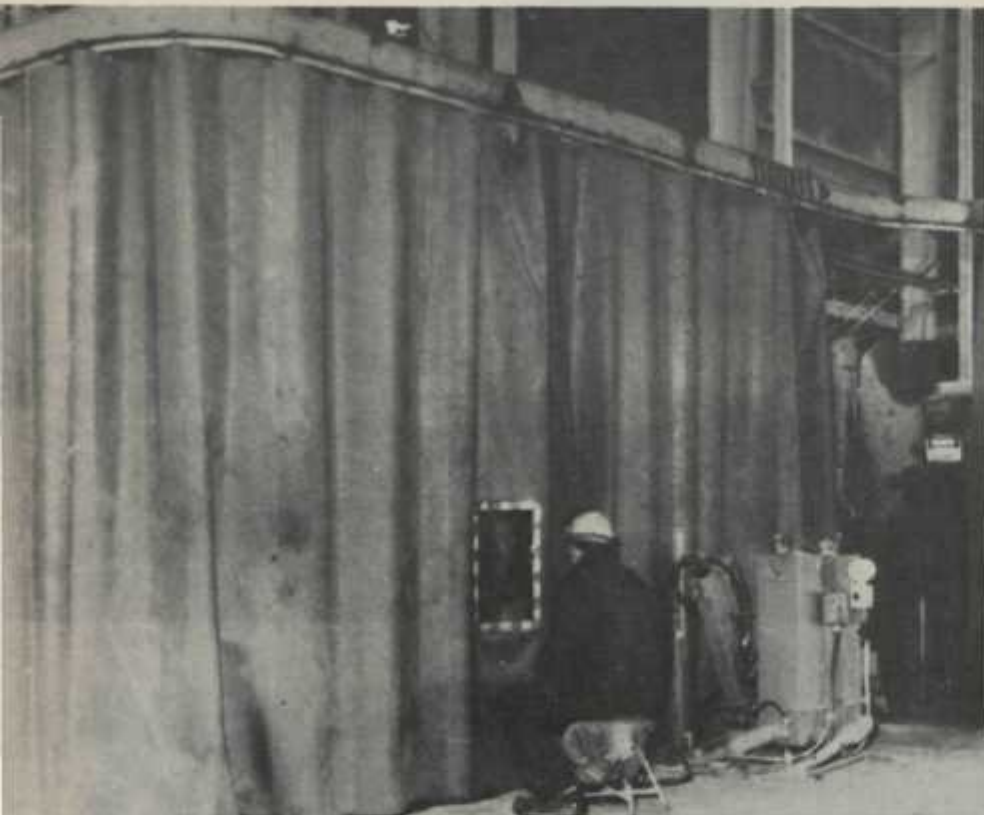
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A 50-foot-long lead-vinyl curtain (above) cuts the noise level 15 decibels to protect employees of Interpace Corp., Wharton, N. H., from the noise of four concrete pipe-forming machines. A worker views the operation through a window.

compared to 88 percent in 1977, predicts Cornell C. Maier, president of Kaiser Aluminum & Chemical Corp.

"With that kind of operating rate, a modest increase in imports, and something like a five percent increase in secondary recoveries, producer inventories should end the year no higher than they were at year-end in 1977," he says.

Meanwhile, the Aluminum Association, Inc., says the annual production rate for aluminum last April was running just a bit ahead of what it was in April, 1977—4,712,150 tons compared to 4,517,605. •

Lining With Lead Muffles Workplace Noise

Lead, which is employed extensively to shield workers and the public from radiation such as from X rays, is finding expanded use as a buffer against another environmental problem—noise.

The Lead Industries Association, Inc., of New York, says that by using lead, noise levels can be reduced as much as 20 decibels.

Many workplaces, through the nature of the work performed, have noise exposure levels that exceed the federally set limit of 90 decibels, the association says. That problem can be solved, it says, simply by lining walls with less-than-one-inch-thick lead sheets and drywall board, in combination with converting windows to acoustical or safety glass or using lead curtains.

The Occupational Safety and Health Administration set the maximum noise exposure level at 90 decibels under the 1970 Occupational Safety and Health Act.

Sources within OSHA say the agency is now drafting regulations that would lower the level for workers who put in longer days. The level would be dropped progressively from 90 down to 85 decibels as the workday increased from eight to as many as 16 hours. •

Busier Times Seen for Rails and Truckers

Both railroads and trucks will be hauling more goods this year, and they will have even bigger increases in volume next year, according to a forecast from the Interstate Commerce Commission.

Statistics compiled by two ICC bu-
continued on page 68A

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A statement from Lewis W. Lehi, President, U.S. Operations; James A. Thwaites, President, International Operations; Raymond H. Herzog, Chairman of the Board.

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The Public Schools and Public Relations

James J. Kilpatrick's column, "How Our Public Schools Can Do a Better Job" [May], was incomplete.

As one who generally agrees with much of what Mr. Kilpatrick has to say, I can only assume he has not thought very deeply on the subject.

One of the greatest problems in the area of public education is the fact that not one writer on the national scene understands, in any depth, how public schools must operate today. Have you ever read a well-researched article in the national media on the impact of negotiations on the public schools? Have you ever read a well-written article on the impact of Public Law 94-142 (mandatory special education) on the public schools? Have you ever read a well-written article on the impact our permissive society has on the public schools?

Have you ever had anyone question why it is that only the public schools are expected to succeed with all of their clients? Do we criticize attorneys whose clients fail to follow their instructions if they fail to win a lawsuit? Do we criticize physicians whose patients do not improve if the patient refuses to follow the physician's instructions? Do we criticize an architect if a building is defective when the builder refuses to follow the plans? Then why do so many in the media persist in blaming the public schools when every youngster who comes to them does not learn as you, and we, wish they would?

The public schools' biggest public relations failure is that they do not trumpet loudly enough their successes, but tend to spend too much time on their problems while attempting to attract adequate resources.

DR. JOHN PAGEN
Superintendent of Schools
Waterford School District
Waterford, Mich.

Mr. Kilpatrick has his flow chart progressing the wrong way. He writes, "Meanwhile, the permissiveness that infected the classroom infected everything else." I propose that it occurred the opposite way: The permissiveness

that infected everything else finally infected the classroom.

As a classroom teacher, I find it exhausting and depressing to fight for things like morals and integrity that find no support in the home and in society. Parents will lie openly for their children, about everything from truancy to unfinished homework. Parents do nothing when confronted with their child's misbehavior. They make excuses for their child, somehow hoping that they won't have to face the final reality—that they have been poor parents and poor models for their child and that he is really out of their control.

More and more, I encounter the cry, "I can't do anything with him; I sure hope that you can!" Often, if the par-

ents can't "do anything with him," I can't either.

Parents have also relinquished control over their child's academic achievement. Television, that boon or bane of the 20th century, has convinced children that learning has to have a gimmick or it isn't worthwhile.

It is true that schools are trying to do too much and losing sight of their original charge: to educate America's youth. Yet, with the home becoming less of an influence on our young people, what will take on the burden originally held by the home?

The states, Pennsylvania specifically, mandate more programs for all kinds of "special" students, but refuse to pay for them. Again, everyone wants a free lunch. Since new pro-



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grams cost money, money that taxpayers and legislators are reluctant to give, the basic curriculum suffers.

BRUCE T. STONEBACK
Allentown, Pa.

What Mr. Kilpatrick may have overlooked is that a fair percentage of the parents who once had children in public schools, but who have fled to private schools from their neighborhood schools—which at one time were the stalwarts of public education—are simply no longer interested in devoting their interests, time, and money to the survival of two school systems.

REMBERT M. SIMS, JR.
Vice President/Regional Sales Manager
American Security Insurance Co.
Atlanta, Ga.

Mountains of mail

Your article on "How Congressmen Respond to Mountains of Mail" [May] was very interesting and informative. I'm a letter-to-your-congressman person, and it's nice to know what happens.

But you did not answer what is to me a very important question: How do these men keep score on the views ex-

pressed in these constituent letters?

I've asked my senators and representatives on several occasions and have gotten no meaningful explanation.

ROGER B. WHITE
Briarhill, Ohio

[Editor's Note: Congressmen tell NATION'S BUSINESS there are almost as many systems of keeping count of constituent views as there are congressmen. But all say constituents' letters do count.]

Appraisers respond

The American Institute of Real Estate Appraisers takes exception to James J. Kilpatrick's article, "An Attempt to Control Thought" [October, 1977].

We did not respond at the time, because the article related to issues before a U. S. court. Now that the court has upheld the institute's position and overruled all of the objections, the institute is free to speak out.

The legal issues are complex, but, in a nutshell, the institute had agreed to update its textbook in connection with the settlement of a lawsuit. The new

edition of the textbook will incorporate revisions that were prepared and copyrighted by the institute. The institute had taken a stand against racial prejudice in the appraisal process, and the text revisions clearly reflected this stand. Mr. Kilpatrick did not like the tone of these text revisions, and he expressed his fear of some kind of Orwellian plot to control thought. Nonsense.

It is obvious that Mr. Kilpatrick is no appraiser. His Archie Bunker views may appeal to some, but they are completely out of place in modern appraising. Appraising requires objectivity, and objectivity requires freedom from bias.

Unlike Mr. Kilpatrick, the American Institute of Real Estate Appraisers is not afraid of change. We are about to go to press with the seventh edition of our best-selling text, "The Appraisal of Real Estate." We will continue to update our own literature and set our own policies, without dictation from the government and without the assistance of James J. Kilpatrick.

CHARLES B. AKERSON
President
American Institute of Real Estate
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Chicago, Ill.

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We are not alone

Regarding the article "Involved Business People: Powerful New Force for Change" [May], it is surprising to learn that we're not alone in our frustration concerning our country. The article clearly says that people of many classes, positions, and income status are doing something to correct what has gone wild.

I am confused, though, at some statements made by various congressmen and senators who say they want to hear from the people so they can vote the people's choice, when in reality they vote for what they want to. Such is the case with Social Security and the Panama Canal.

HOWARD E. TURREL
General Manager
United States Ferto Corp.
Spanish Fork, Utah

Why government is mistrusted

It's easy to see why business does not trust government after reading "Chief Executives Fear Wage-Price Controls" [April] and "The Selling of the President's Tax Program" [April].

Trust is a two-way street.

HEINZ WEINECKE
Liberty Die Casting Co.
Detroit, Mich.

Why Drives to Limit Taxes Are Spreading

ACROSS THE COUNTRY, the movement is being described in terms that have not been seriously invoked for 200 years. It is the taxpayers' "revolt," or "rebellion," or "revolution." It sounds too good to be true, and a skepticism born of nearly 40 years in the news business tells me it most probably is indeed too good to be true. But something powerful is stirring out there. It is a lively flame of resentment, and it ought to be encouraged.

To complain of taxes is surely nothing new. When Joseph laid a tax of 20 percent upon his people in the land of Goshen, we may be certain that some of them bellyached that the pharaoh was taking too much. Amid charges of unjust taxation, our own war for independence was born at the Boston Tea Party in 1773; the period ended when Daniel Shays led a tax rebellion in 1786. Our Union was shaken less than 50 years later by conflict over the Tariff of Abominations. In recent years, notably in Ohio, we have seen repeated flare-ups as taxpayers have refused to increase their local levies even at the price of closing their local schools. In whatever form, as Ricardo said a century and a half ago, taxation presents but a choice of evils. Almost everyone, at some point, feels his tax burden is unbearably large.

If the political process known as representative government worked perfectly, these complaints could be resolved politically: The people would elect representatives to their city councils, state legislatures, and seats in Congress who would vote to reduce public expenditures and provide tax relief. It rarely seems to work that way. No matter which political party is in power, government spending at both the state and national levels rises faster than national income. This has been true for decades. Thirty years ago, government expenditures amounted to roughly 22 percent of total personal income. Twenty years ago, the figure was 31.6 percent. Ten years ago, 36.5 percent. In 1976, the tax bite was estimated at 41.8 percent.

WHY HAS the tax burden grown so appallingly? The reason most often advanced is that the people have demanded more costly and extensive services from their governments. This is not a convincing reason. It is hardly demonstrable that the people have demanded the layers of administrative bureaucracy in their public schools. It is difficult to recall when the people demanded a system of public welfare that weighs so heavily upon taxpayers at every level. One might flip curiously through the pages of the current federal budget, asking at every point: Did the people demand this? Did they really?

A more accurate if less euphemistic answer is that well-organized pressure groups have accounted for most of the swelling increase in governmental expen-

ditures. Such groups have been as successful as the legendary Lola. Whatever Lola wants, Lola gets.

The unionization of public employees is a significant factor in municipal government. In order to buy peaceful contract settlements, city councils and school boards have paid dearly in salary increases and extra benefits. The unions are not the only groups with local political muscle. Especially in the field of public education, small but aggressive groups of voters have expertly twisted arms. The same picture obtains in every state capital. The day does not pass in Washington that some group is not lobbying for some utterly indispensable service, without which life will become unbearable. Farmers and businessmen hustle for special favors in the same corridors that are crowded with consumer advocates,



environmental enthusiasts, and spokesmen for solar energy, minority benefits, and federal regulation of summer camps.

It all adds up. The ordinary citizen understands quite well that government is taking more of his money and, by direct correlation, leaving him less of his freedom. Paradoxically, the greatest dollar irritation produces the least audible complaint. There is virtually nothing the taxpayer can do about his federal burden. The income tax is imposed upon him by some other feller in some other place a long way away. Besides, the federal operation, by which a man is separated from his money, is performed under the anesthetic of withholding. This is not painless dentistry, but it amounts to something close to it.

THE POSSIBILITIES for resistance are far more encouraging at state and local levels, and it is here that rebellions are gathering momentum. The typical statehouse is not so far away; the expenditure of state

funds is as visible as the bubble-gum dome on a state trooper's car; local taxes on real property are payable in lump-sum cash, and they hurt. Here the frustration, the resentment, the inchoate sense of helplessness and political impotence, the whole head of angry steam can be vented. As the overwrought announcer in the movie "Network" cried: "I'm mad as hell, and I'm not going to take it anymore!"

These were among the emotions that some months ago produced a million and a half signatures on a petition for a tax limitation referendum in California. The same steam pressure in March hammered a spending-ceiling amendment into Tennessee's constitution by a vote of 245,000 to 133,000. By one fairly reliable count, serious efforts at tax limitation are moving in no fewer than 27 states, and the number is growing. This is an idea whose time may have come.

PUT MOST SIMPLY, this is the conviction behind tax limitation: The only way to stop our governmental masters from spending so much of our money is to make less of our money available to them. If elected representatives lack the willpower to say no, the people must say no for them. By constitutional amendment or by other binding political process, the people must say: This much, but no more.

That was the thinking behind the Copeland amendment in Tennessee. David Copeland, of Chattanooga, went to the people with a compelling argument. "It is imperative," he said, "that the governed regain control of a government which has deserted the basic principles of its citizens. The way to do it is simple: The governed regain control of government by controlling its available dollars—by collectively and constitutionally imposing limits on its spending." The only alternative to limited spending, Mr. Copeland observed, is unlimited spending.

It is remarkable that a taxpayers' revolt should have been manifested so impressively in Tennessee, for Tennessee ranks low in terms of state and local taxation. The most recent figures I have at hand, for 1974, placed Tennessee's per capita taxes at only \$424, fourth from the bottom among the 50 states. Yet even in Tennessee, it was evident to the voters that state and local expenditures were rising much more rapidly than personal incomes were rising. The Copeland amendment is careful and responsible in the way it puts a lid on public outlays. The ceiling provides exceptions for natural disasters, debt service, and extraordinary expenses that may be imposed by court order. Otherwise, expenditures of state tax revenues cannot rise faster than the economic growth of the state.

CALIFORNIA'S June 6 referendum was far more dramatic than Tennessee's outpouring in March. In California, you expect more drama, and you get it. Proposition 13 was a simple proposition. Opponents termed it simplistic. This was the opening sentence: "The maximum amount of any ad valorem tax on real property shall not exceed one percent of the full cash value of such property." This was another key sentence: "The fair market value base may reflect from year to year the inflationary rate, not to exceed two percent for any given year, or reduction as shown in the consumer price index or comparable data for the

area under taxing jurisdiction." The referendum campaign was waged to the accompaniment of wild whoops, war cries, and groans of anguish from the opposing camps. Property owners were infuriated by inflationary increases in real property assessments. In many cases, owing to the boom in real estate prices in many parts of the state, homeowners denounced tax bills that had quadrupled, even quintupled, in a four-year period. Newspapers filled their letters columns with complaints from readers that their annual taxes were larger than their annual payments on their mortgages. Howard Jarvis, prime mover of Proposition 13, pounded away with figures that could not be effectively refuted: Over the past ten years, California's population increased 15 percent; consumer prices went up 79 percent; but property taxes soared 151 percent, and state and local governmental budgets climbed 174 percent.

The opposition responded with cries that local governments would be crippled if the amendment were approved. Gov. Jerry Brown castigated the proposition as a "consumer fraud" and a "rip-off." He warned that it would create "economic dislocation, political strife, and massive confusion." Across the state, local school boards mailed contingent pink slips to thousands of teachers: If Proposition 13 should carry, the teachers were warned, they would have no jobs in September. Unions of public employees, fearful of local cutbacks, mobilized their full strength in opposition.

TOWARD THE END OF MAY, I spent a week in California listening to the uproar. I had flown to San Diego more or less opposed to the proposition. The amendment, it seemed to me, was clumsily drafted; it lacked some of the safeguards that prudence would recommend; and it left a great deal to be settled in the courts or in Sacramento. But a week of listening to the opponents' hysterics was enough to turn me around. Their singularly unconvincing position was that no public services could be reduced, no economies could be instituted, nothing whatever could be done to relieve the "chaos" that would follow upon the heels of Black Wednesday. The opponents painted a ludicrous caricature of burning buildings, lawless streets, weed-grown parks, and abandoned schoolhouses. The deluge struck me, as one outside observer, as so much hogwash.

Evidently the campaign affected many California voters the same way. In mid-March the California Poll found the voters favoring the proposition by 35 to 27, with 38 percent undecided. In late May, the figures were 52 to 35 with 13 undecided. When the votes were counted in June, the unofficial returns found 4.2 million for the amendment, 2.3 million opposed.

The victory for tax limitation in California is bound to spur the movement in other states. The National Tax Limitation Committee, chaired by William F. Rickenbacker, is now looking with renewed optimism to November. Requests for copies of the committee's model constitutional amendment are pouring in (Box 1000, Briarcliff Manor, N. Y. 10510), and a prairie fire enthusiasm grows. Here in Washington, where I cover my beat, I am feeling a little left out. If the principle of tax limitation is good for the states and good for the localities, why isn't it good for the biggest spender of them all? □

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ENTERPRISE

An Income Tax Offset for Inflation?

A WAGE EARNER who receives an eight-percent pay raise because of an eight-percent inflation rate gains no purchasing power.

But that worker does gain an additional tax liability. The higher pay automatically means higher income taxes, and it may mean a higher tax rate because the worker may be pushed into a new percentage bracket. After the government takes its share of the increase, the amount left is less than what is needed to keep up with inflation.

Investors are in a similar situation when inflation results in higher dividends.

A growing number of members of Congress feel it is unfair for government to profit from inflation, which is primarily caused by government actions, while workers and investors are penalized.

The government's "inflation bonus" is a 1.5 percent increase in income tax revenues for each one percent increase in inflation, the legislators say. They also cite a Congressional Budget Office study showing that increased federal income as a result of inflation is growing so fast that it will total \$45 billion in 1983 alone.

Senators and representatives are sponsoring bills to establish a system of tax indexing.

Under that system, most or all of increased income that does no more than maintain purchasing power would not be subject to taxes.

There might even be a tax reduction, equivalent to the inflation rate, for those whose income doesn't rise.

Various indexing proposals contain various formulas. Some would provide for automatic increases in the amount of personal exemptions or other tax

credits. Others would require adjustments in the tax tables. The adjustments would be determined by changes in the consumer price index.

The White House is urging caution. It has told the Senate Finance Committee, which is considering tax-indexing legislation, that the change would further complicate an already complicated tax system and require enormous additional paperwork.

Other critics say that adopting indexing for taxes could lead to proposals for automatic increases in wages, prices, interest rates, and other areas of the economy. The critics also say that, by shielding the public from the effects of inflation, indexing tends to make people less concerned about inflation.

Should the federal income tax system be indexed to offset the effects of inflation? What do you think?

PLEASE CLIP THIS FORM FOR YOUR REPLY

Kenneth W. Medley, Editor
Nation's Business
1615 H Street N. W.
Washington, D. C. 20062

Index the income tax system to offset the effects of inflation? ☐ Yes ☐ No

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CONSIDER this: a world without ashtrays, free matches, flip-top boxes, or the Marlboro man.

Like it or not, smoking and its attendant paraphernalia permeate almost every aspect of our lives. As a social phenomenon, smoking has gone from the romance of Bogart and Bergman, amid smoky haze in "Casablanca," to segregated seating for smokers and nonsmokers in restaurants.

Once considered one of life's little pleasures, characterized by monogrammed cigarette cases and silk smoking jackets, smoking is now regarded by many as a major health issue.

Joining the surgeon general's warning on cigarette packs and the ban on TV advertising is a new federal agency to direct antismoking campaigns. Health, Education, and Welfare Secretary Joseph A. Califano, Jr., says the Office of Smoking and Health, with an initial annual budget of \$30 million, was created to "inform the public, especially the young, about why they should not smoke and how they can quit if they wish." The Secretary points an accusing finger at smoking as a major cause of cancer and lung disease.

The tobacco industry charges that Mr. Califano's allegations are unfounded scientifically and that the HEW antismoking effort is unjustified "as a matter of public policy."

In May, the "Sound Off to the Editor" question asked: "Should the federal government conduct antismoking campaigns?" NATION's BUSINESS readers who responded oppose Mr. Califano's program three to one.

John T. Arnold, vice president of merchandising for F. W. Woolworth Co., New York, says the Califano antismoking program is "an intrusion on individual freedom." He adds: "We can't afford Mr. Califano."

Eric J. Pavilonis, associate production manager for S. C. Johnson & Son, Inc., Racine, Wis., also opposes the program. He says: "Government as a social mechanism works well when it protects individuals from each other; conversely, it works poorly when it



Allan Johnson, chairman, Saks Fifth Avenue, New York, says: "We will soon be required to wear a tag from one ear saying, 'Living is dangerous to your health.'"



Floyd Faulkner, president, Petroleum Inspection, Inc., Houston, favors antismoking programs. "Why not?" he asks. "It's our tax money that subsidizes tobacco growers."



James Booker, advertising manager, Carolina Freight Carriers Corp., Cherryville, N. C., says: "Government interference in our lives is already massive."

tries to protect individuals from themselves."

According to Don A. Allison, senior vice president of Town & Country Food Stores, Inc., San Angelo, Texas, "Mr. Califano has achieved the dream of every ex-smoker. He gets to tell everyone in America: 'You really ought to quit.' And the government underwrites him to the tune of \$30 million."

Also expressing opposition is Jack Kearney, president of K/C Brokerage, Inc., Seattle, Wash., who contends that smoking "is not a government issue." He adds: "It is ridiculous to spend millions of taxpayers' money on antismoking campaigns and then spend many more millions subsidizing the tobacco growers."

Readers on the other side also cite the tobacco subsidy. Colin C. Cameron, president of Maui Land & Pineapple Co., Inc., Maui, Hawaii, says: "Normally I would say no, but so long as the feds are spending millions to subsidize the growing of tobacco, a modest countervailing pro-health effort would not be unwarranted."

G. C. Maederer, plant manager for Cascade Corp., Portland, Oregon, offers a qualified yes. He says: "If we taxpayers have to pay taxes to support something that is dangerous to health and then pay the bills for this stupidity, surely we have the right to influence people not to smoke, and save millions of dollars."

F. M. Kirby, of Morristown, N. J., chairman of Alleghany Corp., also favors the Califano program. He says: "The civil rights of nonsmokers have been so abused by smokers for so long that enforcement efforts to protect the former are not as well-received as they ought to be." He adds that "an educational campaign is well-justified as a prelude to strict enforcement."

A number of responses come from readers who are in the tobacco industry. D. S. Johnston, vice president of brand management for Brown & Williamson Tobacco Corp., Louisville, Ky., says: "I believe smoking is and should be a personal choice. The product is legal and as such should be available to those who want it." He adds that

"government use of tax dollars to wage a propaganda war is not necessary, constitutes waste, and should be stopped."

Another executive at Brown & Williamson in Louisville, James E. Lilly, treasurer, says: "The fact that I am employed by a tobacco company is not the reason for my opposition to such action. I simply feel that the government has no business trying to make people be against any legal product, particularly when it is far from proven that it is harmful."

James R. Peterson, executive vice president of R. J. Reynolds Industries, Inc., Winston-Salem, N. C., another cigarette manufacturing firm, adds his no vote. "The alleged dangers of smoking are one of the most publicized and widely understood issues in the U. S.," he says. "To use tax dollars in this issue versus other pressing needs would be a matter of poor judgment."

No votes also come from nonsmokers. Eric G. Koehler, regional manager for "TV Guide" magazine in Lakewood, Ohio, writes: "I find smoking to be offensive, intrusive, and certainly worth any organized effort to combat. However, such efforts should not in-

volve a federal government which would then be hypocritically subsidizing an industry it's campaigning against."

"I am absolutely opposed to smoking," says John O. Allen, executive director of the Wyoming Taxpayers Association, Cheyenne. "I am even more opposed to government involvement in an antismoking campaign. However, if bureaucrats insist on getting involved, let it be on the basis of a tax on tobacco and an end to the federal subsidies on tobacco growing."

On the other hand, there is Lisa M. Venner, an editor at Owens-Corning Fiberglas, Toledo, Ohio, who says: "Unfortunately I am a smoker whose willpower has not yet overcome this nasty habit. I need constant reminders of the dangers." She says she welcomes the Califano program.

Lowell A. Cunningham, district customer services manager for Mountain Bell Telephone Co., Roswell, N. Mex., has a different view. "As a smoker, I find the idea somewhat amusing that I should be required, through taxes, to help finance an antismoking campaign. It would be refreshing if the government would show less concern

about my health and welfare and more about my right to make a choice."

"Big Brother is busy enough," says H. E. Jacob, ad valorem tax manager for Dart Industries, Inc., La Canada, Calif. "Sixty years ago, it was very well-known that smoking was harmful to health—it even stunted your growth." Mr. Jacob predicts that the "next step will be prohibition laws," and he notes that they would be unenforceable.

A few words of advice from James D. Lien, an associate at Wilbanks Realty, Phoenix: "Tell Califano he should lend lip service but not tax money to anti-smoking campaigns."

Marsha Gandy, advertising coordinator for Cities Service Co., Tulsa, Okla., thinks that "the federal government should stop using the taxpayers' money on something that is very obvious to the user." She says: "If people cannot read the outside of a cigarette package, they deserve to smoke."

Finally, there is a response from a reader who chose to remain anonymous. He had a burning desire to express his opinion and punctured the O of his emphatic NO with a hole obviously made by a lighted cigarette. □



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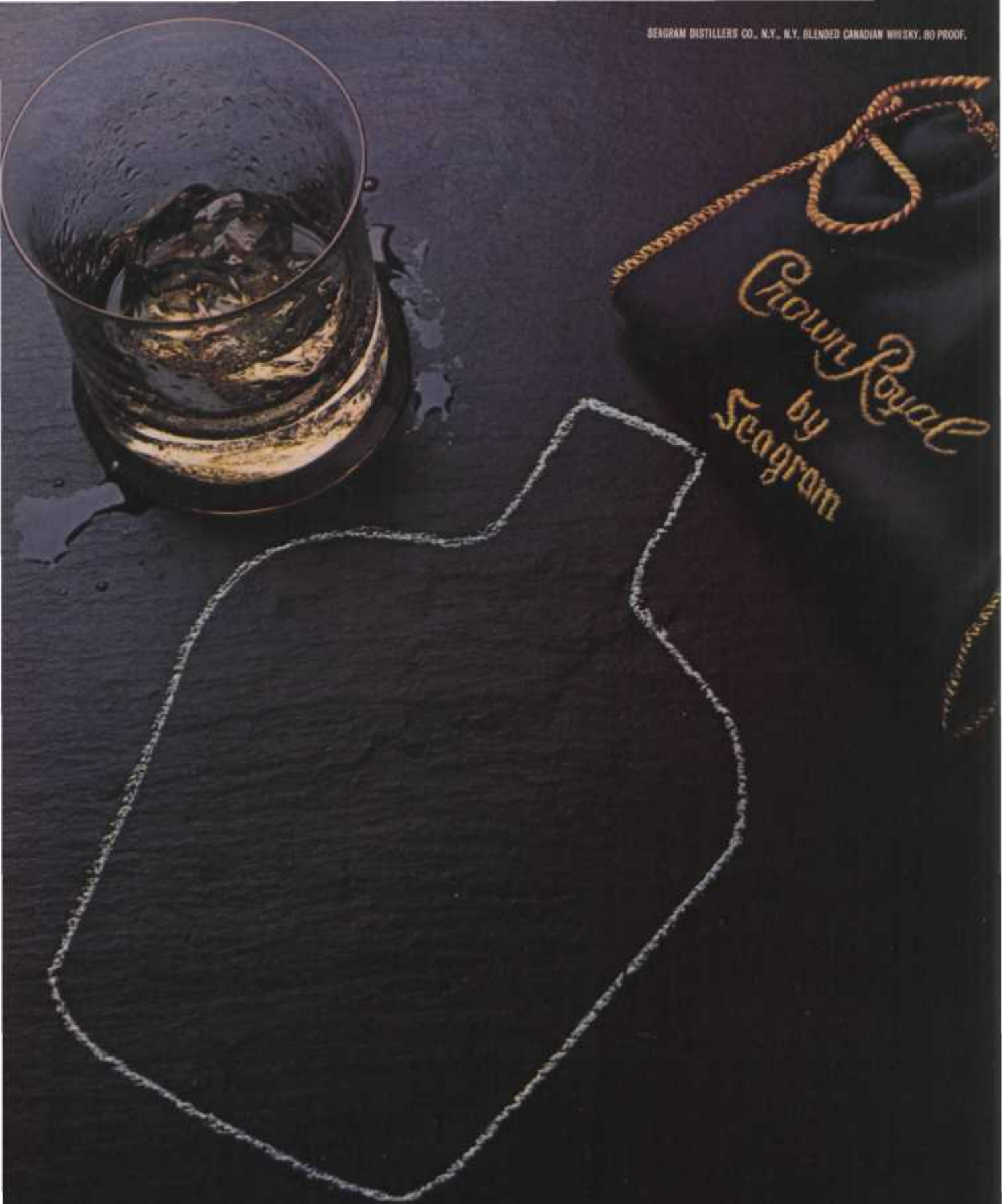
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The butler did it.

Taxpayers in Revolt

A citizen movement to halt unneeded government growth is spreading across the country. Its impact will be felt in Washington as well as in states and localities

SHOCK WAVES from that California tax revolt are being felt in all parts of the country and are rumbling toward the national capital.

Fiscal-restraint movements already under way in nearly 30 states now have a tremendously increased visibility and momentum, and new movements are being launched in other states.

State and local governments are the immediate targets of the burgeoning revolution, in which taxpayers are demanding a halt to the unchecked government growth of the 1960's and 1970's.

But the message is also aimed at the White House and Congress. There are signs that the antitax turmoil will have an important impact on national politics in the near term.

Business at the fore

Business leaders, long in the forefront of efforts to impose financial discipline on government at all levels, are deeply involved in the current movements.

For example, business concern over government expansion was a principal factor in the formation of the new Tax Policy Center at the Chamber of Commerce of the United States.

The center's duties will include service as a clearinghouse for information on the many state and local movements for fiscal restraint. The new unit is also drafting model statutes to implement the best methods of achieving that restraint. Copies of the statutes will be available to organizations throughout the country for presentation to their own legislative bodies.

"The important thing," says Dr.

Richard L. Leshner, National Chamber president, "is to take a balanced approach to curbing the growth of government spending and taxes, a broad-based, intelligent approach that avoids the pitfalls of a narrow one."

Dangerous reactions

Those pitfalls, he says, include the tendencies of elected officials who are faced with limits on specific taxes to compensate for the lost revenues by:

- Seeking increases in other taxes, particularly those on business. "The theory here," Dr. Leshner says, "is that if you can't tax individuals, tax companies."

- Appealing for more federal aid and thereby surrendering still more local control over local affairs.

- Cutting services in the most painful possible way to teach the public a lesson for trying to impose restraint on the bureaucracy. "We are already seeing an example of this in California with the elimination of summer-school programs," Dr. Leshner says.

Split in business sector

Concern about these tendencies was responsible for a division in the California business community over Proposition 13, the real estate tax limitation measure which was placed on the state's ballot through an initiative process that enables voters to bypass elected officials.

The Los Angeles and San Diego chambers of commerce opposed Proposition 13, while the San Francisco chamber took no stand on it. The California State Chamber of Commerce also remained neutral, although a poll of individual members showed 57 per-



Thirteen was a lucky number for Californians facing heavy increases in their tax burdens.

cent supported the proposition.

Many local chambers came out in favor of the proposition, however.

In explaining why some businesses were against the constitutional amendment, Vincent Bordelon, executive director of the Government Relations Council of the Los Angeles Area Chamber of Commerce, says that the \$7 billion in revenues the state will lose in one year as a result of passage of Proposition 13 "will have to be made up somehow, and knowing politicians,

they will hit business pretty damn hard to make it up.

"Politicians like to tax business. People vote. Businesses don't."

Higher taxes for business?

Spotlighting the problems business can face if tax restraint efforts are not carefully balanced, James P. Kennedy, director of taxation for the California State Chamber, notes that a movement is already under way in the state legislature to give the advantages of the real estate tax cut to residential properties only. That could shift much of the burden for recouping lost taxes onto the properties of businesses, many of whose owners supported the tax-cut initiative in expectation of relief.

Another complication in California is the outbreak of lawsuits, many by public employee unions, challenging

the legality of the property tax rollback.

Despite the problems in California, the National Chamber's President Leshner says that "we welcome the signals from the approval of the proposition there. We at the National Chamber have been pointing out since 1975 that a fundamental change is under way in the mood of the people of America, that their frustration with growing taxes and inflation is becoming an important political force."

He adds that "Proposition 13 will have a lasting and pervasive effect on our country."

Dr. Leshner urges that business leaders "maintain concerted pressure on government to assure a continuing and thorough management audit of public activities so we can weed out waste, weed out those programs that have lost their usefulness."

The National Chamber's Tax Policy Center, which will serve as a focal point for state and local movements seeking tax and spending curbs, will enable such movements to share their experiences with each other. The center will also evaluate the most promising approaches for groups committed to fiscal restraint in government.

Dr. Jack Carlson, National Chamber vice president and chief economist, who is acting head of the center, says the overall goal of any fiscal restraint movement should be a guarantee that government spending and taxes do not rise faster than the income of taxpayers over the long range.

He also suggests that those seeking restraint determine the exact financial position of any state or local government that claims tax limits would threaten a financial crisis.

"States are running surpluses that

A HOUSEWIFE SHOWED THE WAY

The name of Howard Jarvis, the retired businessman who was principal author of California's Proposition 13, is now synonymous with taxpayer revolt. But it was a Maine housewife who blazed the trail.

In true David and Goliath fashion, Mrs. Mary Adams single-handedly launched a drive that forced her state to return to local citizens the right to decide how their property taxes are raised and spent.

Armed with not much more than indignation, she collected 50,000 voter signatures that cleared the way for a statewide referendum on the issue. Her proposal won, three to two.

"We proved in Maine—and now California has followed suit—that aroused taxpayers can get action if they're willing to fight for it," Mrs. Adams told NATION'S BUSINESS. "But you have to have the passion of a martyr to succeed."

Mrs. Adams, who had just turned 40, had no idea what she was getting into when she and her husband, Thatcher, an attorney, attended a budget meeting of the school district in her hometown of Garland in 1974.

"We noticed something peculiar," she recalls. "The budget for the first half of the year seemed to suggest that local citizens decided how much of their local property taxes were to be spent for educational purposes.

But the other half indicated those decisions would be made in Augusta, the state capital."

Mrs. Adams, concerned about what would happen to the education of her two children, began peppering local officials with questions. She steeped herself in knowledge of property taxes. She even took a course in tax assessments.

What she learned, she says, is that the state legislature, under the guise of "equal tax for equal effort," had taken over control of spending of local property tax revenues for educational purposes when it passed a uniform property tax statute.

"Many legislators voted for what they were told would bring about quality education," Mrs. Adams recalls. "They did this without realizing the action they were triggering, which was to surrender local control of these taxes."

Mrs. Adams started her campaign for a reversal by getting the support of local officials. Once given the facts, they, too, were unhappy with what the legislature had done.

In 1975, Mrs. Adams tried to get enough signatures to force a referendum, but she failed.

The housewife, now a seasoned campaigner, then discovered an easier way to collect signatures. She and her growing cadre of supporters

turned up at the polls during the 1976 primary and general elections and collected 50,000 signatures—14,000 more than necessary.

Some legislators, realizing that Mary Adams was starting to pose a threat against the political establishment, sought unsuccessfully to pass a bill which would outlaw the circulation of petitions at voting polls.

Most unions in the state, including the Maine Teachers Association, opposed Mrs. Adams's campaign.

"It was just like California," she explains. "Everybody was against it but the taxpayers. Every day the opposition came out with a news release warning what a disaster this would be to education."

However, Gov. James B. Longley, unlike California Gov. Edmund G. Brown, Jr., threw his support behind the citizen movement.

"The citizens of any state can do what we accomplished, but they should be aware of the obstacles that will be thrown in their way," Mary Adams says. "Bureaucracy is so well-entrenched. It takes nothing short of a sledgehammer to break through."

Mary Adams, thanks to her initial concern over the education of her children, now is in a position to do even more. Gov. Longley recently appointed her to the State Board of Education.

will total \$30 billion to \$36 billion over the next two or three years," Dr. Carlson says. "That is the equivalent of \$500 to \$600 in tax relief for the average family. The amount of relief would be much higher if only taxpaying families were considered.

"Public awareness of that kind of cushion can be a valuable tool for a movement to curb tax growth."

Focus on federal government

He adds that "the federal government must also be an important consideration in the rapidly expanding public demand for spending curbs.

"The federal government may be responsible for two thirds of the tax increases this year and next year, as against one third in state and local government. The revolt that is taking place can't help but move into the federal area. What you see happening in California has to hit Washington, and soon."

The National Chamber economist says Washington attitudes that will intensify taxpayer anger are exemplified by decisions on the 1979 fiscal year budget now pending in Congress.

"When the President and Congress became concerned with the size of the deficit needed to accommodate spending increases, they did not propose to slow the growth of expenditures," Dr. Carlson says.

"Instead, they proposed to cut promised tax relief from \$25 billion to \$15 billion. Now federal taxes will be more than \$165 higher for the average American family. This is an example of government ignoring the taxpayer."

A stick-to-it job

While the California voting provides the most dramatic and highly publicized public effort to limit taxation and government spending to date, the tax revolt has actually been under way for some time. Tennessee voters approved a fiscal restraint plan last March.

Lewis K. Uhler, president of the National Tax-Limitation Committee, says the California development "simply adds fuel to the existing tax revolt movement across the country."

For leaders of the movement in various states and cities, Mr. Uhler has this advice: "You are not going to accomplish anything significant or worthwhile overnight. This is a job that requires a long-term commitment, a lot of stick-to-it-iveness."

In Massachusetts, an organization called Citizens for Limited Taxation has been working for three years to

win passage of a state constitutional amendment that would limit state spending to a fixed percentage of the gross income of all residents. Excess revenues would be returned to taxpayers.

Localities vs. states

Donald Feder, executive director of Citizens for Limited Taxation, says the outcome of the California vote "has increased both the visibility and the viability of the taxpayers' movement."

In addition to the state spending limitation, the Bay State plan contains a feature that is becoming increasingly common in tax restraint proposals throughout the country: A ban on any state law that requires local governments to spend additional funds unless the legislation specifies where the money is to come from.

Many municipal officials have com-

"What people making those arguments don't realize," says the National Tax Limitation Committee's President Uhler, "is that people are first and foremost interested in keeping enough money out of what they earn to keep a roof over their heads and to feed their families. After that, they might be willing to discuss how many services they are willing to pay for."

In California, a claim that tax limitations might bankrupt government was a particularly shallow one to those familiar with public financing.

More spending anyway?

The California State Chamber's Mr. Kennedy says that, despite the passage of the real estate tax limitation, there is still a prospect of excessive state spending because of projected growth in other revenues.

Local governments, which are the



The retired businessman who sparked the move to place the constitutional amendment limiting real estate taxes on California's ballot, Howard Jarvis (with glasses), celebrates on election night after the voters overwhelmingly approved the change.

plained that a major source of their fiscal troubles is state legislation that increases expenditures without providing for offsetting revenues.

The Massachusetts proposal has drawn a predictable reaction from public officials. They talk of dangerous cutbacks in police and fire protection, closed schools, shuttered libraries, and inoperative recreational facilities—arguments being heard in response to tax restraint demands in most states.

only recipients of real estate taxes, are now looking to the state to replenish the lost funds because of the rate at which state revenues are increasing.

State collections from personal income, sales, bank-corporation, and other taxes totaled \$13.5 billion in the fiscal year just ended—an increase of almost \$5 billion in three years. They are expected to reach \$15.4 billion this fiscal year and \$23.5 billion in 1982-83.

The reasons, Mr. Kennedy explains,

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HOW ONE TAXPAYER DECIDED HE'D HAD ENOUGH

When the new tax assessment bill failed to arrive in the mail at Mark Slade's West Los Angeles home last month, he made a trip to the assessor's office to pick it up personally.

"I was shocked when I saw the figures," he recalls.

The real estate tax on his home, which was \$1,318 for 1972, when he bought it, and \$2,500 for the fiscal year just ended, had soared to \$6,700 for the current fiscal year.

"I had expected an increase, but nothing like that," he says.

The size of the tax confirmed Mr. Slade's intention to vote in the June 6 California election for Proposition 13, which rolls back assessments to a maximum of one percent of market value as of the 1975-76 fiscal year.

Not only that, but he went home and set up signs protesting his tax boost and urging support for the proposition. (Mr. Slade, his wife, Melinda, and their son, Morgan, 9, are pictured on the cover of this issue of NATION'S BUSINESS. The Slades also

have a four-year-old son, Mitchell.)

Within a few days, he says, the entire neighborhood had sprouted similar signs as "people who had done nothing but talk about the proposition in their living rooms decided to do something."

Mr. Slade and many of his fellow taxpayers assume that officials had deliberately delayed mailing their tax bills in hopes that property owners would not know what their new assessments were until after the voting.

With Proposition 13 overwhelmingly approved by the voters, Mr. Slade expects a substantial rollback in his assessment, although there is some uncertainty over determining what the market value of property was in 1975. An average 57 percent cut in tax bills is anticipated statewide.

Mr. Slade, 37, is a television actor and writer. The overriding consideration in his vote for Proposition 13, he says, was the fear of his family's being forced out of their home by the pressure of unchecked taxes.

are expansion of the state economy and inflation that raises wages and prices on which the taxes are based.

California business people are supporting a proposed constitutional amendment that would gear government spending increases to a formula based on population growth and the consumer price index.

Climate change in Washington

While various tax restraint movements gather momentum at the state and local level, there is increasing evidence that the federal government will become more and more of a target, too.

Among the signs:

- Twenty-three state legislatures have approved a proposed U. S. constitutional amendment to require that the federal budget be balanced, and Sen. Robert J. Dole (R-Kans.) has introduced legislation to that effect in Congress. Approval of the legislatures of 38 states—only 15 more than have already indicated their support—would be needed once such a resolution had cleared Congress by a two-thirds vote of each house.

- A veteran U. S. senator from New Jersey, Clifford P. Case, suffered a

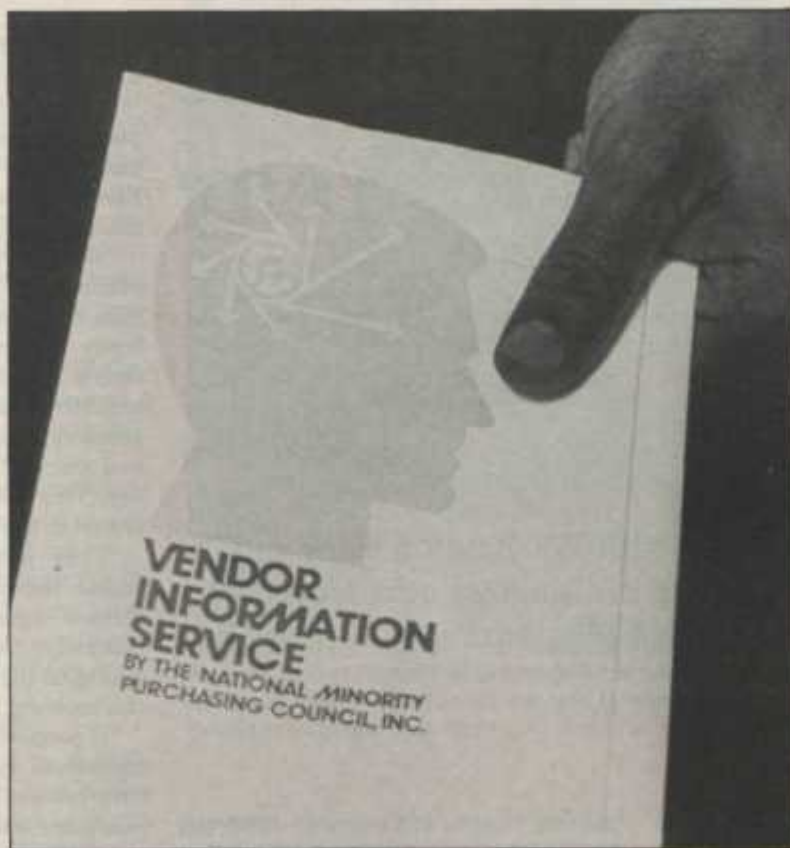
stunning upset in a June Republican primary, which was won by a conservative newcomer, Jeffrey K. Bell. The victor's main campaign theme was a pledge to seek a 30-percent reduction in federal income taxes.

- A proposal to cut President Carter's fiscal 1979 budget two percent across the board—for a total of \$10 billion—failed by only five votes in the House of Representatives, which is an unusually strong showing for such a proposal. Members subsequently approved specific spending trims, particularly for the Department of Health, Education, and Welfare. Demands for further reductions in federal spending were growing as Congress continued action on the budget for the fiscal year, which starts Oct. 1.

As the significance of the electorate's changing mood extends into the political arena, more and more candidates will be running for office on a platform that pledges fiscal restraint and curbs on government growth.

And, says National Chamber President Leshner, "Woe unto the politicians who win elections with promises of fiscal austerity and then fail to deliver. They won't be around long."

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What to Expect in the Off-Year Elections

By Robert T. Gray

Will public discontent with Washington bring radical changes in the makeup of Congress next November? The answers of experts may surprise you

CONGRESS will act next year on a national health insurance plan that will be one of the most far-reaching domestic proposals it has ever considered.

Debate will be intense. Opponents will challenge the plan as a costly mistake that would actually worsen the quality of existing health services while consuming tens of billions of dollars in new tax revenues annually.

Advocates will picture the plan as a means of assuring every American the right to adequate medical care.

While that debate is not expected until well into 1979, the outcome may be determined months earlier.

Big decisions ahead

The political and ideological makeup of the 96th Congress chosen by voters this November could be decisive not only in the outcome of the national health insurance controversy, but in what happens on a wide range of other key business issues. The next Congress will be acting on such matters as anti-inflation moves, federal spending, tax policy, energy, regulatory reform, labor law, unemployment compensation, and workmen's compensation.

What do the experts predict for the congressional elections this November? For one thing, none sees any realistic prospect of a change in the

political control of Congress, which the Democrats now hold by overwhelming majorities—62 to 38 in the Senate and 288 to 147 in the House.

The consensus at this point is that Republican gains in the House, traditionally the center of political interest in an off-year election, will fall somewhat below the average off-year shift of 35 seats away from the party that holds the White House. Estimates range from 15 to 25.

A total of 34 Senate seats will be contested—17 now held by Democrats and 17 by Republicans. While there may be some swapping of seats, the political experts at this point do not anticipate any substantial shift in the political alignment in the Senate.

Given the extent of discontent and concern over public issues in the nation today, why do most political indicators point to relatively little change in the overall makeup of Congress?

One of the great ironies

The answer lies in one of the great ironies of American political life, namely that while Congress as an institution is generally given low marks by the public—a recent poll showed only 16 percent of Americans had a high degree of confidence in the legislative branch—more than 90 percent of congressional incumbents who seek

reelection are returned to Washington by voters.

NATION'S BUSINESS asked a leading political analyst, Richard M. Scammon, head of the privately funded Elections Research Center, for his explanation of that seeming paradox.

"While Congress as an institution excites very little praise," Mr. Scammon said, "people tend to have an entirely different perspective when it comes to their own senators and representative. People will rail against Congress as a bunch of fakers and phonies and worse, but then turn around and say: 'Our own representative is different from the rest of them.'"

"They probably feel that way because the representative has performed some special service for them. Basically, they feel their own man is all right. It's those other guys who are the problem."

"If people really had the low view of individual members of Congress that they have of the body as a whole, Republicans would win a two-to-one majority this fall."

"All the Democrats, who now hold two thirds of the seats, would be thrown out and replaced by Republicans. All the Republicans would be replaced by Democrats. Of course, that's not going to happen."

The AFL-CIO is worried

The off-year trend against the party holding the White House nevertheless remains a major source of worry for the AFL-CIO, the organization that invests the most money and effort in the election of liberal members of Congress.

In a recent political analysis, the labor federation says the 1978 elections could have a "devastating" effect on "the political health of liberal and progressive forces."

It says that "the off-year curse is a tradition that has laid waste Democrats and Republicans alike in the past with total impartiality."

"The tradition punishes in off years the candidates who share party affiliation and fealty with the person in the White House. Jimmy Carter is in the White House, Jimmy Carter is a Democrat. Hence, it's the year for his party's congressional candidates to fight against a tradition that rarely has been defied."

In a statement that Republican political strategists certainly hope is true, the AFL-CIO continues:

"There is nothing whimsical about this off-year tradition. Everyone with a disappointment in, or a grievance against, the federal government focuses this dissatisfaction on the President. He, after all, is the most prominent, visible, and publicized figure in all government.

"Far more than any member of Congress, or the national legislature as a body, his actions come under public scrutiny.

"Citizens angry about something blame the President—and most citizens are angry about something.

"But the President isn't running for reelection in an off year. So, any grievance is taken out on the candidates who represent the President's party."

A \$500,000 advantage

There is a growing belief, on the other hand, that the off-year tradition is being blunted by the extent to which incumbent members of Congress can gain and hold constituents' attention, often at taxpayer expense.

Rep. Guy A. Vander Jagt (R.-Mich.), chairman of the National Republican Congressional Committee, says that "the power of incumbency is awesome."

Referring to increased congressional allowances for office and other expenses, he says:

"One of the reasons for the tremendous advantage of incumbents is the enormous number of perquisites, or publicly financed advantages. An incumbent has about \$500,000 a year today, that he didn't have six years ago, to use in telling the people in his district what a wonderful guy he is and what a great job he is doing for them. So, in a race between an incumbent and a challenger, the incumbent is starting off with a \$500,000 advantage at a minimum."

The advantages of incumbency are considered so great that they have brought about a rethinking of one of the basic factors in forecasting congressional elections, the so-called marginal state or district.

Historically, a congressional seat won with less than 55 percent of the vote has been termed marginal and considered vulnerable to a challenge in



Political analyst Richard M. Scammon believes that voter discontent with Congress as an institution will not lead to wholesale defeat of incumbents. People tend to feel that "their own man is all right," he explains.

the next election. Both major political parties have concentrated resources on winning the marginal seats.

The open seat

But the emphasis has been shifting from the marginal seat to the open seat—the term used to describe a contest in which the incumbent is not seeking reelection.

Political analyst Scammon says that "the open seat is now considered much more available than the marginal seat. This is particularly true outside metropolitan areas. Members of the House in the smaller cities, in suburbs, and in rural areas have a good deal of personal contact with their constituents and also have the advantages that the incumbency offers. A member elected by a narrow margin could be in a much stronger position two years later.

"Nearly all the Democrats in the 1974 elections who won seats that had been held by Republicans were marginal candidates, but they were also hard-working, aggressive, alert, and in touch with their districts, and there was very little change in 1976." Of 78 freshman Democrats, 76 were reelected that year.

On the other hand, Mr. Scammon points out, there have been six elections for open seats in the past 18 months and Republicans have won five

out of six. "While incumbency is an advantage to the guy who is in," Mr. Scammon says, "the absence of an incumbent is a great advantage to the challenging party."

As of now, 50 members of the House and 12 senators will not be running for reelection, and those numbers could increase through further retirements and the defeat of incumbents in primary elections.

Longtime leaders leave

Those leaving include such longtime congressional powers as Sen. James O. Eastland (D.-Miss.), chairman of the Senate Judiciary Committee; Sen. John J. Sparkman (D.-Ala.), chairman, and Sen. Clifford P. Case (R.-N.J.), senior minority member of the Foreign Relations Committee; Sen. Carl T. Curtis (R.-Nebr.), senior minority member of the Finance Committee; Sen. Clifford P. Hansen (R.-Wyo.), senior Republican on the Energy and Natural Resources Committee; Rep. George H. Mahon (D.-Texas), chairman of the House Appropriations Committee; Rep. James J. Delaney (D.-N.Y.), chairman of the Rules Committee; Rep. Olin E. Teague (D.-Texas), chairman of the Science and Technology Committee; and Rep. James A. Burke (D.-Mass.), No. 2 Democrat on the Ways and Means Committee and

chairman of its Social Security subcommittee.

Of the 50 House seats being vacated, 33 are held by Democrats, and Republicans are hoping particularly to make gains in those districts.

Buoyant G. O. P. hopes

G. O. P. hopes are buoyed by various factors. Among them:

- Polls showing a precipitous decline in President Carter's popularity with voters.

- Increasing cohesion among the moderate and conservative wings of the Republican Party after bitter fights that, some observers believe, damaged the party's overall interests.

- Growing public disenchantment with handling of economic issues, particularly inflation and taxation, by the Democratic President and the Democrat-controlled Congress.

- Disaffection of many traditional Democratic voting groups as a result of administration actions at home and abroad on issues of particular interest to those groups. Those actions include pressing the Middle East warplane sale that alienated Jewish voters, social programs criticized by blacks as inadequate, energy initiatives that

have drawn opposition from environmentalists, and the Panama Canal treaties, which were particularly unpopular in the South.

While Republicans are counting on a Carter backlash to help them in the 1978 congressional elections, Democratic candidates have demonstrated an ability to align themselves with, or disengage from, the national party leadership as required.

Taking the middle road

Democratic candidates scored massive gains in Congress in 1964 when nominees identified themselves closely with President Johnson, who won a landslide victory over G. O. P. nominee Barry Goldwater. On the other hand, Democratic majorities in Congress were affected only slightly when President Nixon routed Democratic presidential nominee George McGovern in another landslide election.

Mr. Scammon points out that "if every Democrat who had run in 1972 had been committed to McGovern, the party would have wound up with fewer than 100 House seats."

Congressional candidates "generally run as middle-of-the-roads, regardless of what the national party leader-

ship represents," he notes. "The important thing is the ability of members of Congress to move in accordance with the views of their constituents. I think any member still bleating about all the traditional totems of the left would get beaten this time. A good example of what is happening to the Democrats was the vote on the consumer protection agency bill that Ralph Nader worked so hard to get. There were 101 Democratic votes against Nader on that bill. Members can position themselves at various times on the left, the right, the center, or on any of the gradations in between.

"The result is often a confusing and murky picture that lets members get reelected."

Business participation

That "confusing and murky picture," which frequently makes it difficult for voters to know exactly what their elected representatives stand for, is one reason for the continually increasing business participation in the political process.

Two principal avenues for that participation are corporate political action committees, which solicit funds on a voluntary basis for the support of pro-business candidates, and business advisory teams, which are active in seeking out individuals committed to the free enterprise system to run for political office.

The necessity of a more aggressive business role in the candidate selection process has been detailed by Eugene E. Perrin, a Dow Chemical Co. executive who serves on the Public Affairs Committee of the Chamber of Commerce of the United States.

Labor-supported candidates, Mr. Perrin says, "generally have early identification with the labor organizations and constant support both in the primary and the general election."

On the other side, "the business community seldom has had any great degree of involvement in the candidate selection process."

Mr. Perrin urges that business people "attain some degree of sophisticated planning in the areas of identification and solicitation of good candidates."

There is an additional commitment required from business, he says: If business people expect "attractive and stable" candidates to run, they must offer the candidates "both initial and substantial support."

More and more, business is doing just that. □

ACTIONS VS. WORDS

Know your candidates.

That fundamental message to voters is being highlighted in this year's congressional elections by business leaders active on behalf of candidates who are in tune with the enterprise system.

The advice may sound presumptuous. But the business leaders are keenly aware from experience that there can be a big difference between a candidate's campaign pronouncements and his or her actual views on business issues.

Such a difference can be particularly apparent in the case of an incumbent, but detailed Washington voting records are not easily accessible to constituents.

To fill that information gap, various organizations analyze the voting records of members of Congress from the perspective of how specific votes affect the interests of those organizations.

Such organizations include the Chamber of Commerce of the United States, the AFL-CIO, Americans for

Democratic Action, Americans for Constitutional Action, and Public Citizen Congress Watch, a group headed by Ralph Nader.

A summary of the ratings those organizations have given all members of the present Congress has been compiled by the National Chamber Alliance for Politics. The summary is available as a guide to individual voters in appraising incumbents seeking reelection.

The National Chamber Alliance is a political action committee formed by the National Chamber to raise funds on a voluntary basis for the support of probusiness candidates.

An Alliance publication, "They Grade the Congress" (No. 5791), may be purchased by writing the National Chamber Alliance for Politics at P. O. Box 1728, Washington, D. C. 20013, or by phoning (301) 770-1450. The price is 25 cents per copy, with a minimum order of \$1. For 100 or more copies, the price is 15 cents each. Make checks payable to NCAP-Education.

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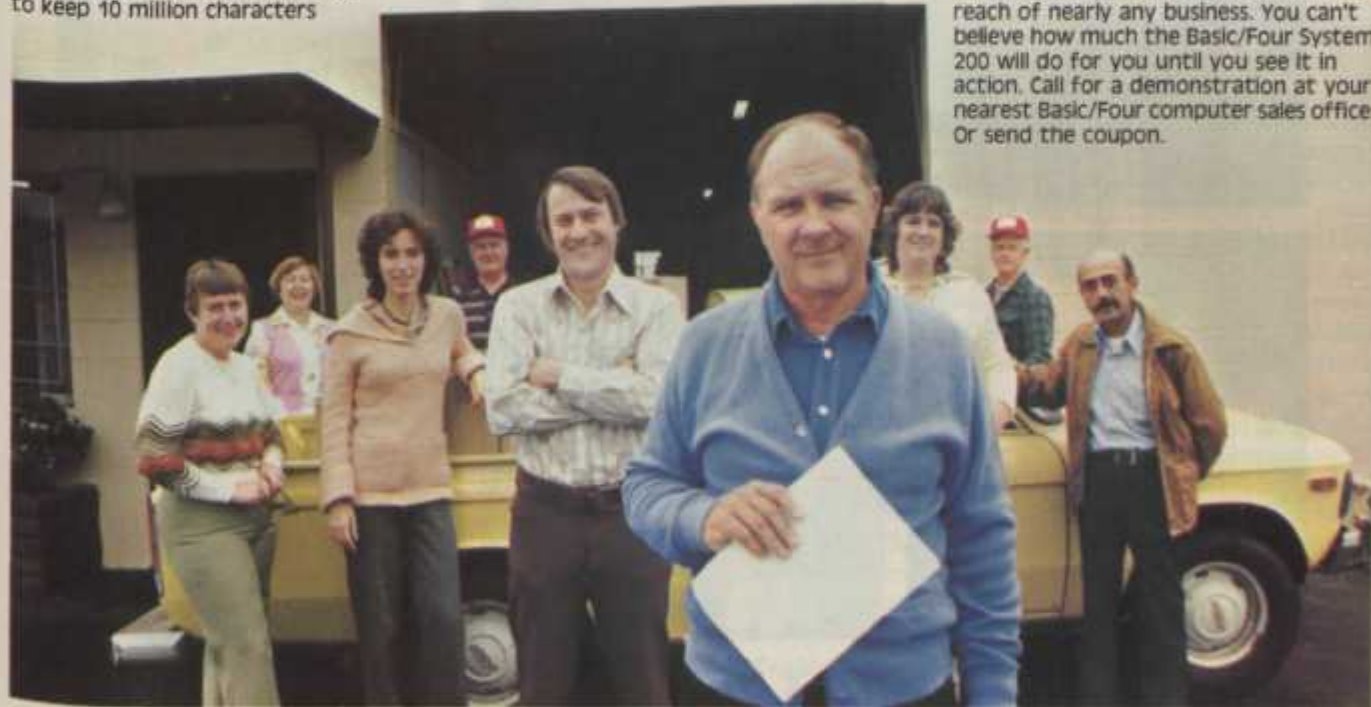
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formation. Decay of our cities. Weakening of the family structure. The continuing growth of government. How we meet these challenges will determine the character of American life in the years ahead.

There are many different ideas being expressed, different solutions being proposed. This is as it should be. People are of different persuasions, and Americans are never totally satis-

fied with things as they are.

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Richard L. Leshner, President
Chamber of Commerce of the
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How the Clean Air Law Can Choke Industry

By George Fowler

A grim story for business and the nation is unfolding as regulations to implement the Clean Air Act Amendments of 1977 are developed in Washington

THE PEOPLE. Capitalism. This vast, abundant land. These three factors combined to bring the United States to increasingly higher levels of material well-being during the 19th century's Industrial Revolution and on into this century.

But there was from the start a sour note: pollution.

The smog that hung unendingly over Pittsburgh, as witness to the city's mighty steel production, symbolized pollution's role of vile but accepted camp follower in America's forward march.

Dirty air was the willingly paid price of the full dinner pail in Birmingham and Fall River, Detroit and Hoboken, and all the other industrial towns.

But increasingly since World War II, with a heightening of awareness and concern in the late 1960's, Americans came to question the inevitability of auto fumes filling city canyons and of industrial waste permeating the living space of millions. We began to worry about pollution and its effect on our health.

Today even ardent critics of American industry admit that the pollution problem has been met and whittled down to an astounding degree over the past decade.

Big burden for business

U. S. business is expected to increase its pollution control budget from \$9.03 billion to \$10.92 billion this year. One survey states that the total business cost of meeting pollution control standards for all facilities had reached

\$38.4 billion by the start of this year.

But there is much more to come. For, according to environmental experts throughout the American business community, the Clean Air Act Amendments of 1977, which took effect when they were passed last August, will change, indeed pervert, the entire evolution of environmental cleanup in this country.

Business people were concerned when the amendments were passed. In the months since then, as the Environmental Protection Agency has developed implementing regulations, the concern has reached new heights. The general public has reason for alarm, too—not only because its economic welfare depends so heavily on the welfare of business, but because all sorts of restrictions on the use of automobiles are in the offing.

The Clean Air Act of 1970, the legislation changed by the amendments, was designed to reduce air pollution by controlling emissions in heavily developed areas of the country where the major sources of pollution—automobiles and smoke-emitting plants—are concentrated.

Congress identified six basic pollutants and handed the newly created Environmental Protection Agency authority to set health standards at a level that would protect the public health. The law gave EPA very liberal operating margins. Its often-antagonistic bureaucrats enjoyed a great deal of leeway.

And from the start, certain environmental groups—the well-known Sierra

Club among them—began instigating court actions to bring about stricter EPA regulations, notably in relation to undeveloped areas where there was still clean air.

The 1970 law required establishment of two types of national standards: primary standards to protect public health and secondary standards to protect public welfare. These so-called ambient—surrounding—air quality goals were to be achieved by setting emission standards to control air pollution from stationary sources, such as industrial plants, and from mobile sources, such as autos and trucks.

In mid-1976, EPA stated that more than 82 percent of the nation's major industrial facilities either were in compliance with the agency's required emission standards or were on approved compliance schedules. Meanwhile, sentiment that led to the 1977 amendments had already germinated in Congress.

Shutting the escape valves

Gary D. Knight, director of environment and land policy at the Chamber of Commerce of the United States, observes that back in 1975, when it became apparent that standards set for 1977 would not be universally met, some members of Congress wanted to know why.

"They found out that 15 to 20 percent of major industrial sources, for one reason or another, had not attained standards," Mr. Knight says. "They were bound and determined to eliminate that. They were bound and

determined to force industry to invest in expensive new technology to meet the emission standards rather than to continue to allow industry to meet them by burning lower-sulfur coal or cutting back production during periods when there were atmospheric inversions."

Mr. Knight says that "the zealots, the hardliners, in the environmental community pushed their friends in Congress so that they became determined to force industry to shut the apparent escape valves for meeting the law's requirements in a low-technology manner."

These congressmen, under the environmentalist pressure, were also eager "to keep the auto industry's feet to the fire," Mr. Knight says.

At hearings prior to passage of the 1970 laws, the best technical experts in the country had told Congress flat-out that probably half the nation's pollution was coming from road vehicles and that it would probably take ten years to replace all "dirty" cars on the road with cleaner cars. This reasoning was based on the life cycle of automobiles—one tenth replaced every year for ten years.

The educated projection was that perhaps, within an additional ten years, the ambient air quality standards could be achieved.

"That is 20 years," Mr. Knight observes, "and in terms of public policy, 20 years to a politician is a lifetime. So what Congress did was set five years for cleaning up the cars and five years for meeting the air standards—two concurrent, not subsequent, timetables."

Tightening the screws

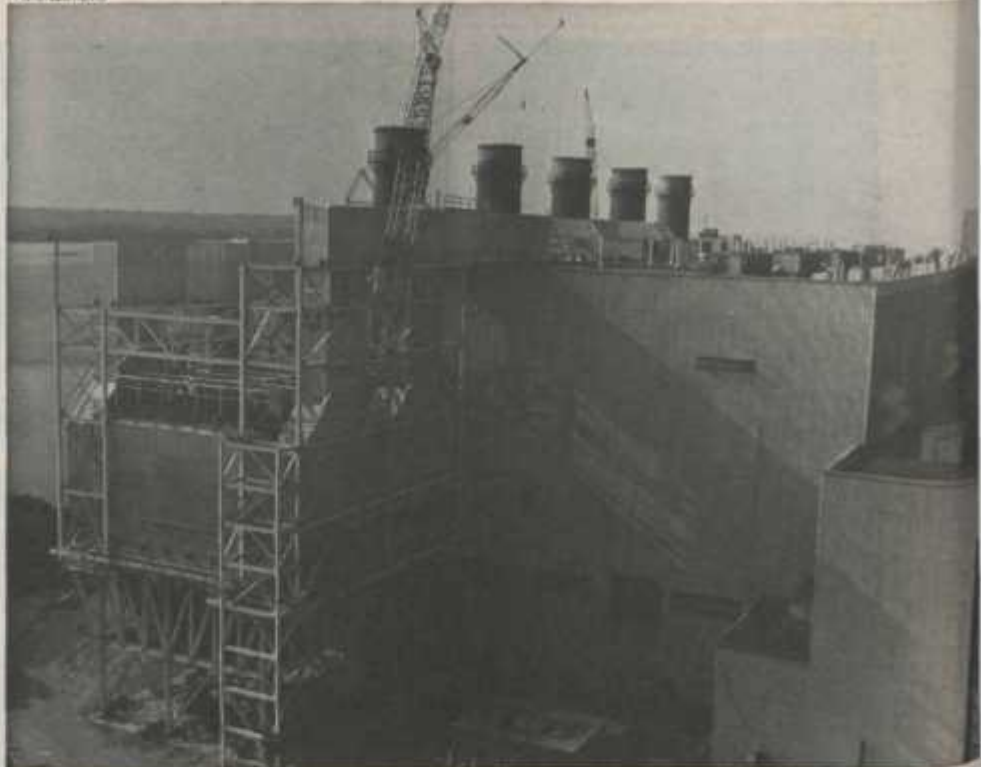
Congress did include two one-year extensions of these deadlines for the automakers as well as a two-year extension for state compliance with the general air standards.

At the time the Clean Air Act Amendments of 1977 were being debated in Congress, William D. Ruckelshaus, who was EPA administrator at the time of the original legislation's passage and now is a corporate executive, said that "there was no way on God's earth" that the air standards could be reached by the 1977 deadline.

"If we took every dollar in the nation and every technological capacity we had and devoted it solely to the protection of the air, we still would not achieve that goal," he said.

Nevertheless, he said, Congress had gone ahead and set the standards.

PHOTO: LEE HENIG



One example of the cost to business of complying with clean air regulations is this \$55 million project at a generating plant that belongs to Potomac Electric Power Co. Stacks eliminate emission of pollutants.



To reduce commuter driving, and thereby reduce emissions from autos, states and localities have set up special bus and car-pool lanes on highways. This is in Northern Virginia.

Mr. Knight, agreeing that "the goals of the attainment package could not have been met," adds that, of course, "they were not met." But, he says, "hardline environmentalists moved to tighten the screws even harder, and what's upcoming is the result."

He says that the 1977 amendments will constitute "the single most critical impediment to the continued growth of industrial development in this country."

Under the new requirements, national air pollution standards for five major air pollutants must be met in all

areas of the country by Dec. 31, 1982.

In order to meet this deadline, each state must have an air quality implementation plan approved by EPA by July 1, 1979. More critically, these state plans must be submitted to EPA by next Jan. 1.

What state plans must do

EPA has declared that its mandate under the amended act requires it to disapprove any plan that does not include:

- An inventory of existing air pollution sources and a program to reduce



Pollution from nature can cause violation of some clean air law standards, even though there is little or no industry for hundreds of miles around.

emissions to enable the state to attain the standards by the end of 1982.

- State authority to implement "transportation control plans," possibly including downtown parking bans, for major metropolitan areas that do not meet air quality standards.

- State authority to implement "inspection and maintenance" plans to periodically inspect all automobiles in use in "dirty air" states. The idea is to ensure that tailpipe emissions are in compliance with federal standards.

And what of states that do not submit "approvable" implementation

plans? Sanctions include the withholding of some or all federal grant monies for highways, sewerage, and air pollution control agencies, and the banning of construction of new or modified industrial facilities in a state or locality as of July 1, 1979.

Penalties for noncompliance

Under the 1977 amendments, EPA will be required to enter a civil action for violations of certain of the law's requirements. The amendments authorize imposition by EPA of a noncompliance penalty, over and above civil and

criminal penalties, for failure of a major source of emissions to comply with emission limitations on the appointed date. Since EPA will determine what is acceptable compliance, it thus will be both prosecutor and jury.

And pre-existing enforcement orders or consent decrees that provide for compliance after July 1, 1979, are void, even though these were granted with the full authority of the state or federal government.

EPA will now have authority to study "unregulated pollutants, including radioactive pollutants," which may be regulated if "reasonably ... anticipated to endanger public health." In determining emission limitations, industries may not use intermittent or supplementary controls or tall stacks. This means that the best control technology that money can buy must be employed.

In addition, the President, with the consent of a state's governor, may require that locally available coal be burned by local industries if economic disruptions would otherwise occur. Major industries would then be required to enter into long-term contracts to use this local coal.

The amendments also set up a mechanism to investigate any employee's allegation that his employer discharged him or threatened to discharge him because of the amendments' requirements.

Industry vs. drivers

But any possible labor-management hassles regarding the amendments are considered small stuff compared to what experts see as a congressionally contrived adversary situation of cars vs. plant and business sites.

Mr. Knight says that, with the 1977 amendments, "Congress in effect has pitted industry in each state against every person who drives an automobile."

The upcoming scenario is quite definite. Not only must existing industrial facilities be retrofitted to eliminate any emissions above and beyond present federal emission standards, but sources never before controlled—dry-cleaning establishments, gas stations, and small boilers in shopping centers and office buildings, to name a few—will be controlled.

For clean air areas, EPA has issued regulations governing all sources that could emit 100 tons per year of any one pollutant with antipollution controls turned off, even though it is illegal to operate without controls. If, after a

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quick review, EPA determines that a source would emit more than 50 tons of any pollutant a year despite use of antipollution equipment, the owner of the source would have to undergo extensive permit procedures if he wanted to expand or otherwise modify the facility.

Beyond the benefit point

Increasingly, business is questioning the rationale of forcing pollution control requirements beyond realistic standards for public health protection. Business people feel that much of the money that will be spent on the pollu-

tion controls would be better spent on health care and on health research programs.

As one expert puts it: "From a moral, practical, and image standpoint, most businesses want to meet and are meeting realistic goals. That is just good business; it is proper across the board. But the question remains: Is it necessary to remove 95 percent of the pollution coming out of your stack or is 90 good enough? Indeed, is 95 good enough when EPA is interpreting congressional intent as requiring 98 percent?"

"The greater the percentage of pol-

Endangered Species

WHAT'S BEING DONE IN THE NAME OF THE ORANGE-FOOTED PIMPLEBACK

Once upon a time, not so long ago, no one would have imagined there would be titanic struggles waged in Congress in the name of the trecklebelly madhorn, Furbish lousewart, and orange-footed pimpleback.

This is no fairy tale. The debate is over reauthorization of, and amendments to, the Endangered Species Act, a law which has left states, communities, and thousands of individual business people in a state of bewildered suspended animation.

No one quarrels with the original intent of the act—to protect such creatures as the American bald eagle, the whooping crane, and the grizzly bear in some of the wilderness areas of the American West.

But two years after the act's passage in 1973, the small list of heritage symbols had been expanded to include the habitats of the exotic, the little-known, and—to most Americans—the completely unknown.

This interpretation of the act's intent by Fish and Wildlife Service officials has succeeded in stopping multimillion-dollar dam projects within sight of completion and in blocking other construction projects as diverse as housing developments and badly needed power plants.

The Supreme Court has also given the law a broad interpretation. It ruled last month that a \$119 million dam on the Little Tennessee River, under construction for 11 years, could not be completed because of the threatened extinction of a little fish called a snail darter.

Among other projects being held up is the Dickey-Lincoln Power Plant in Maine, because of the Furbish lousewart flower, and the Duck River Dam in Tennessee, because of the tan riffle shell, orange-footed pimpleback, and Cumberland monkey-face—all mussels.

In Houston, there is even more of a problem for business people. Five major areas are designated as habitats of the Houston toad, even though nobody has seen one around Houston in ten years. One of the areas is an asphalt parking lot of a huge, thriving shopping center.

The shopping center is doing business as usual, but until government biologists determine that the Houston toad really is extinct in Houston, or that the designated areas really do fit the biological needs of the little critter, development of housing and other projects can't go forward.

The original 1973 act listed 109 species which could be considered in the endangered area. Since then, more than 24,000 plant and animal species have been suggested for the endangered list.

Sen. Jake Garn (R.-Utah) told the resource protection subcommittee of the Senate Committee on Environment and Public Works that various environmental groups are waging "purely obstructionist actions" in the name of remote endangered species.

"Let's please use a little common sense," he urged. "Let's protect our heritage, but let us not stop all progress."

lution that you take out as you near 100 percent, the more prohibitive the cost. This means that it can cost as much money to raise the pollution-free level from 90 to 95 percent as it did to get out the first 90 percent of pollution; as much again to go from 95 to 97, from 97 to 98, from 98 to 98½, etc.

"Some case studies composed by business people who specialize in this have concluded, without rational contradiction, that there is a point where there is no real practical benefit. You get to a point where you are misdirecting great amounts of money just fighting pollution for pollution's sake. It comes down to a situation of considerable wasted time, money, and effort."

What motorists face

And what about the between-a-rock-and-a-hard-place nightmare that Congress and EPA have lined up for the still largely unaware motorists of the nation?

Despite the additional stringent controls on industry, any metropolitan area of 200,000 population or more that is classified as a "nonattainment" area for two auto-related pollutants, ozone (smog) and carbon monoxide—that is, an area that does not now meet ambient air quality standards in relation to those pollutants—must have in place a transportation control plan. And the state in which the metropolitan area is located must have a statewide program to periodically inspect every auto.

(The only metropolitan areas in the 200,000-and-up category not now in this nonattainment classification are Spokane and Honolulu.)

EPA must be satisfied that everyone is meeting tailpipe and emission standards to demonstrate attainment of the ozone and carbon monoxide standards by Dec. 31, 1982.

If a state does not attain these "reasonable measures" by that deadline, it can apply for an extension until Dec. 31, 1987. However, in order to get such an extension, states will be required to show proposals for predictably more stringent measures.

In a desperate effort to avoid federal fund cutoffs and local restrictions imposed by EPA itself, states and communities can be expected to resort to a number of strictures on auto use.

These could include areawide car-pool programs, exclusive car-pool and bus lanes, corporate van-pool programs, on-street parking controls, strict toll measures to discourage single-occupancy auto trips, and manda-

tory staggered work hours. William C. Chapman, an environmental expert with General Motors, told NATION'S BUSINESS that "the American public is at the dawn of awareness regarding the effect the Clean Air Amendments are going to have on their future. They will face all sorts of controls that they may find about as enjoyable as Prohibition."

"The local administrators already realize that they will be in an impossible bind. One Virginia official told me recently that his state can't begin to meet the requirements at the local administrative level."

Mr. Chapman predicts that "anyone with manufacturing plants will be very hard pressed to do any modification, expansion, updating, or any of the normal, commercial processes consistent with keeping productive."

He says that "the administrative requirements and the confrontations you are going to have with a virtually impossible ozone standard just put EPA in the driver's seat in telling people how to run their lives. I don't want to push the panic button, but the fact is that the EPA bureaucrats are going to have powers well beyond anything that a body of federal people have had in this country to this point."

Pollution without industry

A vital factor in the national air quality problem is natural pollution. But experts maintain that Congress has failed to recognize this factor while EPA has failed, for whatever reasons, to impress it upon them.

Long before the invention of the wheel, parts of the earth were in violation of EPA standards for particulates—dust—and ozone.

The source of much of the pollution picked up by EPA's control devices around the country is simply wind-blown dust off the ground.

Many with a general knowledge of the problem have wondered why vast areas of the country, particularly in the Northern Plains and in the West, are in violation of the particulate standards when there is little or no industry for hundreds of miles. The answer, quite simply, is the natural dust load produced by the wind.

EPA now says it will give credit for this natural pollution when granting nonattainment "offsets." But, critics maintain, this does not help states and cities which are identified as nonattainment areas because of dust loads sweeping in from other areas.

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—Bob Meade, Bell National Account Manager



"The average cost of an industrial sales call today is \$71.27. Making a phone call before the sales call can tell you if you have the right prospect, if you'll be talking to the actual decision-maker, if that person has time for you. Long Distance can save a lot of grief."*

*Laboratory of Advertising Performance, Lab Report #8013.3, from McGraw-Hill Research

In this era of energy concerns, with traffic choking the road, it's often a good idea to think first of using the phone.

When you look at the phone this way—as a means of saving time and increasing revenue—you begin to see the phone's business potential.

In case after case, the Bell System has helped business tap this potential. It has shown firms how to generate new business, reduce potentially "uncollectible" bills—and more.

If need be, the Bell Account Executive will set up a program (based on researching the company's business); recommend the most flexible phone setup; and train employees in telephone techniques that make a program work.

So if you want to get on with the business of increasing profit, there's a way.

Get on the phone.
The system is the solution.



Bell System

1978 EDITION NOW AVAILABLE:



ANALYSIS OF WORKERS' COMPENSATION LAWS

New insurance requirements...more workers covered...new medical limits...higher benefits. Last year alone, more than 300 new laws were enacted. Insurance premiums are now in excess of \$10 billion annually plus another billion dollars paid out in self-insurance. It's vital for employers and their insurance carriers to have accurate, up-to-date information.

Prepared annually, the ANALYSIS OF WORKERS' COMPENSATION LAWS is unique, an authority with the information you need at your fingertips: more than 40 pages of charts for a quick comparison and analysis of current laws in all 50 states, the District of Columbia, Guam, Puerto Rico, and the Canadian Provinces...information on benefits, coverage, insurance and state requirements. A must for General Counsels, Personnel Directors, Insurance Managers, Employee Benefit Directors. #5690, single copy, \$5.00; bulk rates upon request. Order from Chamber of Commerce of the United States (202/659-6083), 1615 H Street N. W., Washington, D. C. 20062.

quence than natural dust is natural smog. Ozone is formed when hydrocarbons, from whatever source, combine with other pollutants in the presence of sunlight. Vast amounts of natural hydrocarbons are emitted into the air, especially along our coastlines, due to rotting vegetation in swamps and wetland areas. Evergreen forests also produce a natural haze of hydrocarbon emissions.

Roadblock for oil industry

Relative to this problem, more than 90 percent of areas for which there is sufficient data—including most areas along our coasts—are in violation of standards.

Gary Knight contends that "this means that the oil industry will be unable to build the necessary facilities to offload, store, and refine, and it may even be unable to drill offshore to keep us supplied with oil. The refinery belts in Louisiana and Texas will be especially stymied, and the chemical industry will also be hindered from future growth."

In one case, a major oil company was stopped from developing its oil shale activities on the western high plateau of Colorado, an area with no industry and only two small communities. This was due to nonmethane hydrocarbons produced when the wind blows over the mesquite. Though EPA will give credit for particulates, it has refused to give credit for this type of natural pollution.

The revised Clean Air Act also includes "visibility protection procedures," which seek to shield some 158 nationally protected areas from smoke or haze by requiring retrofit technology on existing plants.

This is considered especially alarming, given the necessity for development of power plants and other energy facilities to enable the United States to achieve some semblance of energy self-sufficiency.

Fear for our future

Responses from a wide range of industry sources reveal that they are more than angry at what they consider the monstrous power handed EPA by Congress.

Reared in the principles of a basically free economy as the lifeblood of a basically free country, business people who see what's coming down the pike are worried about the country's future economic growth. □



To order reprints of this article, see page 32.

"One for you, one for me..."



"One for you, one for me. One for you, two for me..." How common that kind of an attitude too often is! Any more, it seems like anything that isn't firmly nailed down (even that is no guarantee of safety) is fair game. Shoplifters justify their actions on the basis of high prices—failing to recognize that theft is a major cause of the high prices in the first place. Politicians have become adept at grabbing two dollars so that they can return one dollar to some special interest group—and thereby enhance their re-election. Employees have long since forgotten the distinction between that which is theirs and that which is the company's—and they wonder whatever happened to job security. The more pragmatic of our associates adopt the simple attitude of, "What the heck, it's the survival of the fittest. God helps those who help themselves. And, God help those who get caught helping themselves!"

Obviously, this litany could continue. Recent history is showing us that. But, the real challenge is to bring it to a halt.

Again, obviously, that isn't going to happen universally until there is a massive awakening to an understanding of the fundamentals of economics—and a widespread return to morality. However, a growing number of truly concerned people—businessmen, honest politicians, attorneys—have discovered a way of protecting themselves and of restoring integrity to their particular spheres of influence.

They are doing it with the Hagoth.

The Hagoth is one of those electronic miracles that does the seemingly impossible. The Hagoth is a voice stress analyzer. It "listens" to a person's voice and measures the amount of stress in it. That information is invaluable because, when stress is absent, when eight green lights on the face of the Hagoth are lit, you know that the speaker is telling the truth!

On the other hand, when eight red lights are lit, you know that the speaker is experiencing a great deal of stress. With a little more questioning you can determine whether that stress is caused by a deliberate attempt to deceive you—or by some

other factor (such as dropping a lit cigarette in his lap).

The Hagoth is so simple to use that skeptical businessmen, after a few hours of self-instruction, are connecting their Hagoths to telephones and discovering that the truth is often stranger than fiction. They are getting better prices on the materials that they buy. They are solving inventory shrinkage problems. They are making better investments. They are making a lot fewer mistakes—and enjoying more time off as a result.

They are even discovering the **real** intentions of political candidates before they are elected. Some of those candidates will receive support; many, will not!

We even know of one attorney who took his Hagoth into court almost as soon as he received it. Using the Hagoth covertly, he immediately pinpointed the perjuries of an "expert" witness.

So, justice and virtue can prevail! And the Hagoth can help.

But, how about you? Are you a renaissance man who would like to be in the vanguard of those working to re-establish the old verities? Or, are you more of the pragmatist who has a pretty good idea just how much—in dollars and in time—that the rip-off artists are costing you?

Either way, we're willing to bet that the Hagoth at \$1500 is the least expensive—and perhaps the only—solution to your problems.

But, don't just take our word for it. Borrow a Hagoth from one of your associates who already has one. Give us a call at (206) 235-1020. Ask us if everything we say about the Hagoth is true. Ask us if our total satisfaction, money-back guarantee is for real. We'll say "Yes" to both questions—and the lights on your Hagoth will all turn green!

Or, if you are not afraid that the renaissance will pass you by (and if you still believe that the US Postal Service isn't among the rip-off artists) then drop us a line at Hagoth Corporation, Department OEY, 85 N.W. Alder, Issaquah, Washington 98027. We'll show you how you can't afford not to have a Hagoth!



Mercedes-Benz unveils a new kind of performance automobile: the 300 SD Turbodiesel Sedan

Its turbocharged engine boosts power and torque and transforms Diesel performance, yet fuel appetite is actually cut. And this advance is matched by the car itself – the most capable, most sumptuous Diesel in Mercedes-Benz history.

The 300 SD Turbodiesel Sedan: the boldest forward stride since Mercedes-Benz built the world's first production Diesel automobile 42 years ago.

Moving with the smooth ease and eager response you might expect only from a gasoline engine, the new Mercedes-Benz 300 SD Turbodiesel Sedan responds vividly to your throttle foot even at low speeds...even in highway passing...even on long uphill climbs.

Meanwhile, the Turbodiesel retains that workhorse efficiency you can only expect from a Diesel – sipping the cheapest automotive fuel sold in America, devoid of spark plugs and carburetors and

points, all but immune to conventional tune-ups.

In a single technical masterstroke, the most desirable traits of a gasoline and a Diesel engine have been blended into one. An advance significant enough to make this not just a new kind of Diesel but a unique new kind of car.

Five supercharged cylinders

That masterstroke is turbocharging of the 300 SD's five-cylinder engine.

Named after the turbine princi-

ple it follows, a turbocharger harnesses the engine's own exhaust gases to radically increase the supply of air fed into the cylinders – literally *supercharging* them with air for more volatile combustion.

Turbochargers have appeared on many types of engines, but never until now on the engine of a Diesel automobile. The effect is amazing. Maximum power is boosted by 43 percent, for example, and maximum torque by 46 percent.

And the driving experience

makes even those numbers pale. That old Diesel stigma of feeble torque and leisurely pickup has vanished in a burst of turbocharged energy. This is one Diesel that can break away from stoplights and tollbooths *with* the traffic, not behind it. That extra thrust you need on freeway entrance ramps can be found. You can sustain a normal driving pace on the Interstates, hour after hour.

Mercedes-Benz test data show that although 400 pounds heavier than its lively 300 D Sedan stablemate, the Turbodiesel can zip from zero to 55 mph in 2.6 seconds *less* time – placing it among the quickest Diesel cars in history.

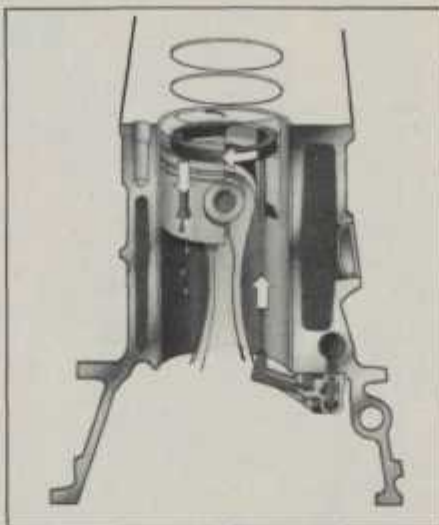
No minor feat for an engine of only three liters or 183.0 cubic inches in capacity; yet no great surprise for an engine so efficient that it produces .601 horsepower per cubic inch of displacement – the best ratio of power to engine size of any Diesel passenger car power plant in the world.

Fuel appetite down

Startling as it may seem, this extra performance helped reduce the Turbodiesel engine's normal appetite for fuel.

Turbocharging so handily solved the Diesel need for power that it freed the engineers to specify a more economical rear-axle ratio – in effect, gearing the car to go further on the power produced by a given gallon of fuel.

Consider the Turbodiesel's performance. Then consider that EPA



Each piston in the 5-cylinder Turbodiesel engine is cooled by a fine spray of oil injected from below.

estimates show 29 mpg in highway driving and 24 mpg in the city. Naturally, your mileage will depend on the condition and equipment of your car and on where and how you drive.

Record-breaking reliability

This breakthrough has hardly been rushed to the market. Mercedes-Benz placed the 300 SD Turbodiesel engine in production only after 5 years of testing – and only after placing it in the reliability record books.

Fitted with a modified version of this engine, a C-111-3 research car went out on April 30, 1978 and set nine world records – including one stint of 2,345 miles in twelve hours at an average speed of 195.39 mph. For the entire record run, the engineers report a fuel mileage figure of 14.7 mpg.

A car apart

The Diesel turbocharging trail blazed by Mercedes-Benz with the Turbodiesel may some day be followed by others. But no Diesel engine will ever share the privilege of propelling a comparable car. It is the unique combination of that engine and this automobile that truly sets the Turbodiesel apart.

As befits the most elegant Diesel Mercedes-Benz has ever built, the Turbodiesel sits on the longest wheelbase of any Diesel car produced by the company in modern times. Yet its turning circle is a tight 38 feet and its crisp handling lets you nip through traffic.

Fastidious engineering is everywhere. You glide along on a suspension that is neither spongy nor harsh, but designed to provide both ride comfort *and* roadholding. The key is the independent suspension of all four wheels, allowing each wheel to individually react to the road surface.

Each shock absorber is gas pressurized to help cushion even minor ripples. The automatic transmission provides not three but four speeds, and the option of shifting for yourself if you prefer. From a monocoque body shell to 11-inch disc brakes at all four wheels, nothing from the vast store of Mercedes-Benz technical expertise has been held back.



This turbocharged five-cylinder Mercedes-Benz Diesel research car just shattered nine world speed records – including one lap at an average speed of 203.37 mph.

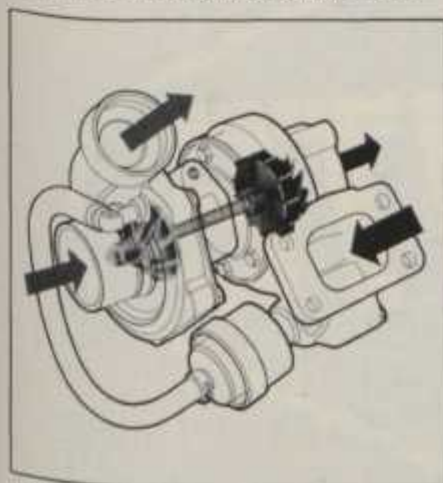
Inside, you and your passengers are a coddled group: surrounded by thick padding, velour carpet underfoot, cradled in spacious seats front and rear. Bi-level climate control, electric windows, automatic cruise control, central vacuum locking system and AM/FM stereo radio are all built in.

Also built into your 300 SD Turbodiesel: 120 safety features, perhaps the most attractive fact of them all.

Summing it up

In 1886, the gasoline-powered automobile was pioneered by the two men who founded Mercedes-Benz. In 1936 came the world's first production Diesel passenger car, again from Mercedes-Benz. And now in 1978 begins the era of the turbocharged Diesel passenger car.

And once again, the innovator is Mercedes-Benz.



Amazing turbocharger device weighs only 17 pounds but boosts horsepower by 43 percent.



From One Secondhand Truck to a Giant Truckline

Harwood Cochrane had to drop out of high school and go to work. In his early days as a businessman, he led a hand-to-mouth existence. Today he runs America's largest nonunion trucking company

HARWOOD Cochrane is willing to look back nostalgically, but not yearningly, to the Depression-ravaged 1930's when he struggled to keep a small trucking company afloat.

"We used to sleep in our trucks, often using an oil lantern and an old quilt to keep from freezing to death," he recalls. "Most of the time, I carried a partial loaf of bread and a jar of mayonnaise, and I frequently picked up a quarter of a pound of bologna or cheese to complete the meal. That's barely existing."

Harwood Cochrane and his company managed to survive.

Today, if the tractors, trailers, and trucks which bear the blue and gray emblem of the Overnite Transportation Co. were lined up end to end, they would stretch for more than 41 miles.

Overnite, which is headquartered in Richmond, Va., has 5,300 employees and 62 major terminals. It operates in 20 states and the District of Columbia—a territory that extends from Chicago, Cleveland, and Philadelphia to Kansas City, Memphis, and Jacksonville.

Last year, Overnite chalked up record sales of \$156 million and record

earnings of \$12 million, a 29 percent jump in operating revenues and a 30 percent increase in net income over 1976. This was accomplished despite the worst weather conditions ever experienced by the company and a 60-day East Coast longshoremen's strike.

Fighting off the union

Overnite is the largest trucking company in the United States operating without union drivers. The International Brotherhood of Teamsters has sought unsuccessfully for years to organize Overnite. Another unionizing drive is currently under way.

In 1959, an organizing dispute erupted in violence, and Overnite sued the Teamsters for \$1 million in damages. The courts awarded the company \$363,000. For a long time, Mr. Cochrane carried around a copy of a check for that amount signed by the late James Hoffa, the Teamsters boss.

Harwood Cochrane is part of a vanishing breed. The opportunities are no longer here, he says, for an individual to build a giant truckline starting with a truck or two. For one thing, there is the heavy taxation, he says, and for another, the small operator could not compete with the big fleet owners who already dominate the best truck routes. In the past decade, scores of small lines either have gone out of business or have been taken over by larger, well-established companies.

Where many businesses complain about the oppressiveness of federal regulation of their affairs, the trucking industry is different. Truckers say that regulation, as administered by the Interstate Commerce Commission, as-

sure stability in the rates they charge. Without that stability, they say, there would be havoc.

This is not to say, of course, that truckline operators like Mr. Cochrane wholly embrace the manner in which ICC runs their affairs. Applications to serve new routes are caught in a massive logjam at the agency.

For example, since October, 1974, Overnite has had an application on file to operate between Jacksonville and Houston. So far the company has spent more than \$500,000 for legal fees and the travel expenses of some 200 witnesses appearing at ICC hearings in Washington. If Overnite is awarded the route—and there is no hint that it will be—the decision is subject to appeal at least twice, and that could consume another 15 months.

The bad old days

Still, Harwood Cochrane says, he would not want to turn back the clock.

"Any talk of deregulation causes me to have a flashback visualizing this nightmare all over again," he told an ICC hearing last October, referring to the early days of Overnite. "Had I not been young and headstrong, I never could have survived the many ordeals that we faced, mostly in the first eight years."

In the pre-ICC period, he recalls, trucking rates usually were determined by existing railroad tariffs, which reflected railroad rather than highway mileage. For example, he was paid 25 cents a case for hauling cold-storage eggs 120 miles from Richmond to Henderson, N. C., but he could charge no more for hauling eggs to

Shelby, N. C., a distance of 320 miles.

"The first ten years I spent in the business, it wasn't just difficult to borrow money, it was almost impossible to get into a banker's office," he says. "Once the industry became stable under ICC rules, bankers began to show more interest. They were cautious, but at least they would talk to you. Gradually, over the years, they began giving limited lines of credit.

"Today the industry is looked upon as being stable, and necessary finances in most cases are available at rates enjoyed by the larger manufacturers."

Harwood Cochrane, who is 65, is a self-made man. When he was in the tenth grade, his father died. He dropped out of school a few months later and worked at an assortment of jobs—in a service station, as a plumber's helper, and doing odd chores for a tobacco company. When he was 17, he took a job delivering milk by horse and wagon. He was soon transferred to a truck, and trucks have been part of his life ever since.

"Harwood is a perfect example of the free enterprise system at work," says a longtime close friend, J. Clifford Miller, Jr., chairman of Richmond's Miller Manufacturing Co., Inc.

Striking out on his own

In 1933, when he was 21, Mr. Cochrane gave up the dairy job and went into business in Richmond with his older brother, Calvin. Their first paying job was hauling hayrides. Two years later, Harwood struck out on his own. Not long afterward, he lost his only two trucks in highway accidents. He had no insurance to cover the losses. He was now unemployed.

A few weeks later, his brother, who owed him \$400, gave him a second-hand Chevrolet truck in lieu of cash, and Harwood Cochrane launched the Overnite Transportation Co.

In 1940, after five years of borderline survival, Overnite took the first halting step toward expansion by buying up a small competitor.

With World War II already raging overseas, the American military machine was starting to build for what would prove to be direct U. S. involvement in the war. A stepped-up role for transportation—including movement of war supplies by truck—was clearly developing. Harwood Cochrane read the signs correctly, and other acquisitions followed.

There have been even more acquisitions since that period. Mr. Cochrane has now bought 50 companies and is

PHOTO: MIKE CRUTCHER



Overnite's out-of-town truck drivers are regular visitors to Harwood Cochrane's headquarters suite in Richmond. Overnite is the largest nonunion trucking firm in the United States, and it continues to be a target of the Teamsters union.

always looking at prospects to add to his empire.

In 1957, Overnite began selling stock to the public. In 1962, the stock began appearing on the New York Stock Exchange.

Second to running his trucking business, Mr. Cochrane's favorite occupation is buying property. He has accumulated 12,700 acres of marsh and farmland in North Carolina which he makes available to his employees for hunting and other recreation. He also has sizable real estate holdings in downtown Richmond. But his pride and joy is a 2,000-acre farm just outside Richmond where he and Mrs. Cochrane live in gracious comfort. Mr. Cochrane's greatest relaxation comes from tending to his 3,000 head of Black Angus and Charolais purebred cattle.

Harwood Cochrane runs his company from a ninth floor suite of offices at the top of a new multimillion-dollar headquarters building on the banks of the historic James River in Richmond. In this setting, he reviewed for a NATION'S BUSINESS editor his rise from a struggling small businessman to a highly successful business executive.

Mr. Cochrane, could anyone start out today the way you did and build a giant trucking business such as Overnite?

No, and for several reasons. One is that every activity and every purchase

is taxed today. When I went in business, you did not pay any taxes, other than gasoline tax and a small income tax, and if you didn't make any money, you didn't pay income taxes. Now you pay taxes on gasoline, tires, parts, trucks, and trailers, and you pay a heavy-vehicle tax for the use of the interstate highway system. You are heavily taxed on everything you buy. You pay two thirds as much tax today if you operate at a loss as if you were making a substantial profit.

Many businessmen complain about government overregulation, but truckers seem to be different. Why is this?

We cannot operate without government regulation—that is, the regulation of the trucking industry by the Interstate Commerce Commission. If nothing else, we need the ICC to protect us from each other or even from ourselves.

For example, there are 35 carriers operating between Baltimore and Atlanta. Without the ICC, you might come up with 35 different scales of rates for the same commodity. This would be chaotic. Shippers would find it most difficult in dealing with the carriers.

Also, you might find a situation where a carrier has just gone deeply in debt, buying new buildings and new trucks. To maintain a high level of



Mr. Cochrane and his wife, Louise, enjoy an intimate moment on the sun porch of their home. The family residence is part of a 2,000-acre farm outside Richmond.

traffic, he would have to bid low to make sure he could meet his payments. With many, it would be a desperate situation.

What would deregulation do to the competition?

I can see situations where you would have people going into the trucking business with the idea of skimming off the choice routes and the choice traffic. Few, if any, would serve small towns and out-of-the-way places as we are required to do now. Small towns would be the first to feel the effects of deregulation.

What led you into the trucking business in the first place?

I guess it goes back to the job I had

when I was 17 with a dairy here in Richmond. I delivered milk with a horse and wagon, and later with a truck, for about four years. This truck activity may have set off the spark. Actually, in my early years I wanted to be a long-distance bus driver.

My brother, Calvin, who is eight years older than I, decided to go into business. He bought the first two trucks, and we hauled for hayrides, we hauled household goods, and we made some local pickups and deliveries. Later I was able to buy our first tractor and trailer. We had a loose partnership arrangement in that we were both working from the same office and the same telephone but hauled for different people. I was collecting and paying my own bills, and he was doing likewise.

When did you strike out on your own?

In January, 1935. After two years.

How did you go about developing business?

In the two years with my brother, I had become fairly familiar with the shippers around Richmond. I made it a point to see them frequently, reminding them how badly I needed their business if my company was to survive. Five of my first customers are still with me today.

What determined shipping rates in those days?

You charged whatever you could get. Frequently the price would change once or twice a day. Of course, when the ICC took over the industry in August of 1935, the rates were stabilized.

In the beginning, you were driving your own trucks. What were conditions like?

Well, there were no motels, and if there had been any, we couldn't afford them. We had one truck with a sleeper cab on it. The rest of the time, we did as best we could with an oil lantern and quilt to keep from freezing. There were a few restaurants along the road that stayed open all night, and we could go into them and get a cup of coffee and try to get warm.

Was it difficult getting a business started in the Depression years?

I'll answer this way. I would go to a service station, fill up with gas, and give the man a check. As I pulled out of the drive, I would say: "Don't put that in the bank for a few days. It's no good." More times than I could remember, I would leave a jack or a spare tire with a garage or a gas station to cover my gas bill until I could return with the cash.

Do you ever have a yen to get behind the wheel of one of your trucks and drive again?

I had that urge until about three years ago, when I tried it. The new equipment is so different from what it was when I drove that I really didn't feel safe, so I settled for a small truck moving cattle and feed between my farms on the weekend.

When ICC moved into the picture, did you see this as something that might help you stay afloat?

I knew it had to improve things. Of

course, all the ICC would give you in the way of franchises was what you could prove you had handled prior to Aug. 23, 1935, when the ICC took over. Well, I had been in the business only eight months, and I thought this would cut me short. They gave me a route from Richmond to High Point, N.C., via Durham, N.C., with a return by Winston-Salem, N.C., and Danville, Va. That wasn't too bad. Also, they gave me a certificate to handle specified commodities on into Charlotte and the surrounding area—items such as bakery products, rugs, eggs, and dairy supplies. This meant we had to start acquiring other companies if we were to develop a profitable route structure.

How many companies have you acquired over the years?

At least 50 at this point.

Since you are a nonunion operation, how do you handle companies you

acquire which have union contracts?

Where you already have employees in large numbers in the same location, it is usually no problem. Where the operation is new, we work it in different ways.

In some cases we give severance pay of 90 days to all employees. Of course, most of the companies we buy are broke. Often they are shut down. For example, the last three we acquired were already shut down.

How do you account for the fact that Overnite has managed to remain non-union all these years?

I think the attitude and feeling of our employees toward the company has had a lot to do with it. We get tremendous support from our rank and file employees. They are extremely loyal people, always ready to go the second mile. Likewise, we try to be fair with them at all times.

How does your drivers' pay compare with that of drivers at union companies?

Our drivers' take-home pay is not much less. Our hourly scale is lower, but our drivers have no compulsory deductions.

You pay a safety bonus to drivers?

Yes. It's \$225 for the first year without an accident and \$275 for three years or more.

And your company has a good safety record?

It always is among the best three or four in the nation.

Your Richmond terminal has rather comfortable sleeping quarters for your out-of-town drivers. Are they typical of all your terminals?

Yes. Most companies put their drivers up in old hotels and the like. We need to have our drivers on the premises for many reasons. When we need drivers we can be in touch with them quickly.

We make things as pleasant as possible. Our drivers have color TV in their quarters. They get the morning and evening papers delivered. We furnish cars at the larger terminals for them to use for transportation to restaurants, etc. All of this, of course, adds to the comfort and well-being of our drivers away from home.

In the early days, when you were getting started, did you have any kind of vision of where you would be at this stage of your life?

Well, I dreamed of bigger and better things, but I had no idea we would be where we are today.

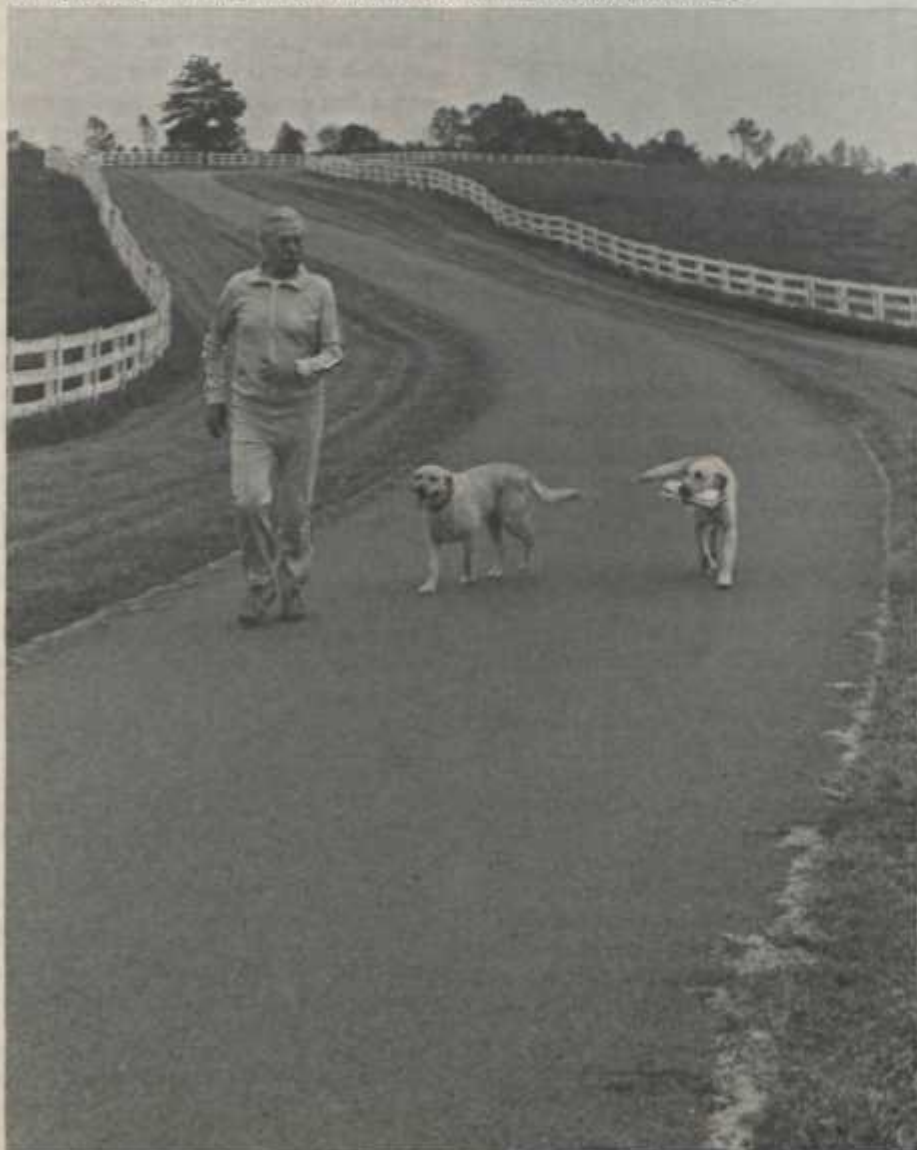
Can you put your finger on some point in time when you could see that things were opening up, that you were a success?

No. Five years or even three years ago, I couldn't predict that we would be where we are today.

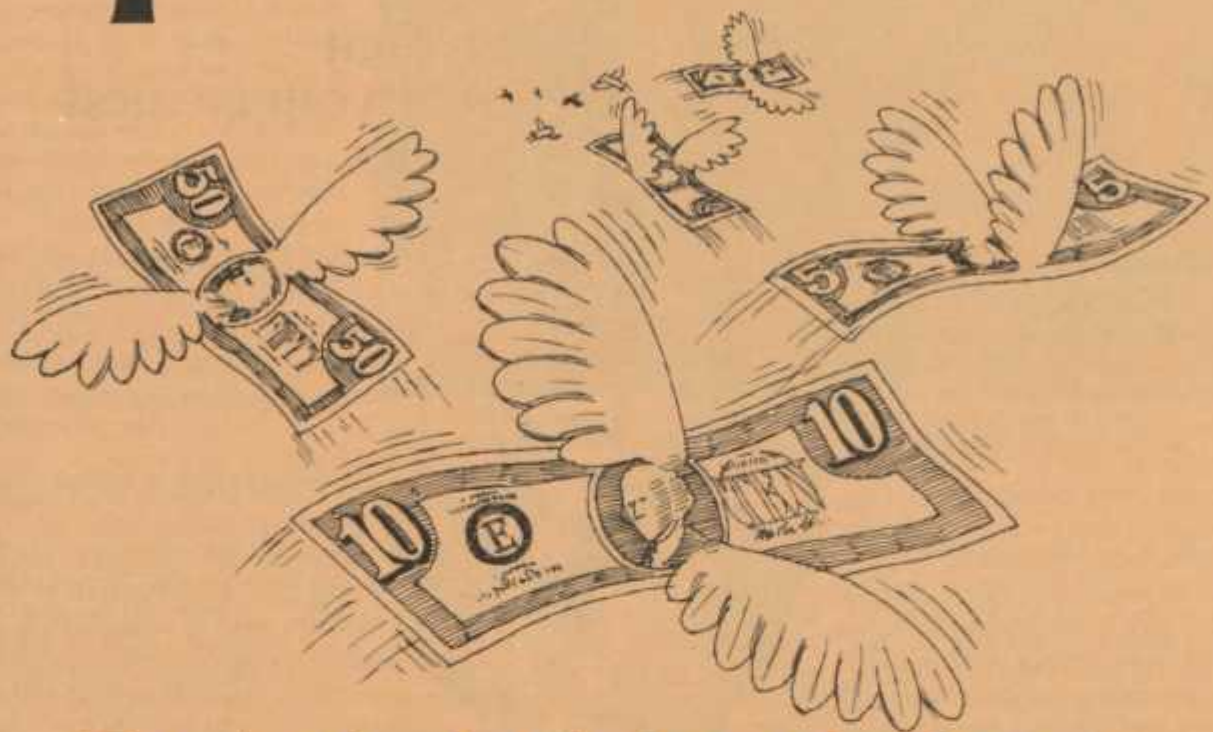
Mr. Cochrane, is there some kind of definable philosophy which guides you in business?

I can't think of any. You make it or you don't make it depending on your ability to work with people. You must be able to get the best out of them. You must trust them and get them to trust you. If you have a weakness in this relationship, it is not a good time to be thinking about expanding your business.

With his two golden retrievers, Adam and Eve, Mr. Cochrane jogs every morning from his home to the mailbox, a distance of almost a mile. The farm provides him with his chief relaxation from the trucking business.



Accounting problems?



There's a simple solution, so low in cost.

Turn the page for more information ➡

or send in the return postcard. (We hope you do both.)

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Accounting problems?

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That handy digit is all a small businessman needs — along with his ability to read English — to operate Lockheed's computerized accounting system.

It's the Lockheed System III and it takes care of accounts payable and receivable, payroll, order entry/inventory and other chores with a dispatch that's hard to believe.

To operate System III, you, your secretary, or a clerk, just uses that digit on the System III keyboard. Then instructions in plain English appear on System III's display screen and tell you, step-by-step, what to do. It's that simple.

And as your business grows and you want to expand System III's work, you just augment that digit with your thumb.

You simply plug in extra capacity. None of this business of buying a costly new system. None of this business of shipping your System III back to the factory to add more performance.

You just order a new module and plug it in. So simple.

What business are you in?

Retailing? Manufacturing?

Wholesaling? Insurance?

Physicians' group practice?

Now it's time to employ that digit in a simple, preliminary step.

Dial (201) 757-3300 collect and ask Charles Sereno to get you more information about System III. Or augment that digit with your thumb again and send in the return postcard on this page.

It's stamped to make things simpler.



NB-7/78

Please send me more information about the Lockheed System III.

Name _____

Title _____ Phone _____

Company _____

Street Address _____

City _____ State _____ Zip _____



**Lockheed
Electronics**
Plainfield, New Jersey 07061

ness, particularly on borrowed money.

We have always had a good relationship with our employees.

Is there any one thing in your make-up, more than anything else, that you can credit with your success?

No. You know, I have thought about it a lot. I look back and try to find some person I might have gone to for guidance more than others when I had a problem, but no name comes up.

I guess my wife's patience and understanding really had more to do with my hanging in there than anything else did. She complained very little in the early days when I was away from home and she was raising the children. And those were lean years, very lean. When we were first married, my wife worked at DuPont. She had to get up before daylight to go to work. Without her help, I doubt that we would have made it through those lean years.

I was flat broke many times, but I refused to admit it, mainly to keep from embarrassing my wife and family.

Is there any pattern to how you make decisions?

I generally get advice from people around me. Even if they are dead set against a proposal that I am for, I like to get the benefit of their thinking. But over the years, in 99 percent of the cases I have made the final decisions.

Once you make a major decision, do you fret that it might be the wrong decision?

It doesn't bother me in the least. I make a decision with the understanding that I and I alone am responsible for it. If it goes sour, I'm not going to blame anybody else. I am not going to point my finger at anyone. I have made a few mistakes. If you don't make mistakes, you aren't accomplishing very much.

You apparently enjoy one of the best ratios of costs to profit in the industry. How do you accomplish this?

We watch our costs at all levels. As you know, we are in an industry where up to 60 percent of every dollar goes for labor, so naturally we focus the most attention where the stakes are the highest.

Would you say that tight management describes your operation?

By all means, yes. We run a fairly tight ship. Everybody in every business has things that they know are wrong



Mr. Cochrane, who delivered milk by horse and wagon—and later by truck—as a youth, now owns 3,000 head of Black Angus and Charolais purebred cattle, some of which are shown here on his farm.

but that they don't tackle for one reason or another. Here, we don't sleep very well if too many things are wrong and nothing is being done about them. We have lots of things that are hard to correct, like claims, accidents, things of that nature, but to turn your back and say there is nothing you can do about it, well, we can't live with that.

Overnite has grown steadily, sometimes by leaps and bounds. Do you feel you still have the same grip on the company that you had, say, ten or 15 years ago?

Obviously, you don't have the control of a company you had when it was a third of its present size. But with the people we have monitoring the whole operation, we feel we have about as good a grip—or maybe a better one—on a lot of items than we had ten years ago.

We talked earlier of your acquisitions of other companies. What do you look for in an acquisition?

For the past ten years, all of my planning has been directed to buying companies where we would operate over the interstate highway system as much as possible, at the same time picking up sizable cities. The interstate system, by the way, has been a godsend to our industry—the greatest thing to

come along since the rubber tire.

Now the bad part of an acquisition is that you buy the whole company, not just the part you want. Consequently, we find ourselves having purchased operations in the coalfields of Virginia, West Virginia, and Kentucky. Nobody in his right mind would deliberately set out to serve these areas. There is no return traffic, for example. But we bought companies whose franchises included these areas, and consequently we have served them and served them well over the years.

Recent acquisitions have extended Overnite to Chicago and Kansas City. Does this suggest you are aiming for coast-to-coast service?

No, because there are already 12 carriers operating coast-to-coast. The market is pretty well saturated.

Why are some bankers concerned about ICC deregulation of the trucking industry?

Well, a carrier's franchise is one of his guarantees that he will be around awhile. Bankers feel this has substantial value in itself. Today a trucking company can go out and borrow money from a bank using its certificate as part of its collateral. If the government didn't grant us certificates and the protection that goes with them, I think

you would see the value of present certificates cut to ten percent of what they are today.

How do you regard the future of the industry, say, by the year 2000?

The family truckline is on the way out. The big will get bigger. The weak will be caught up in mergers. There is little chance a family truckline doing \$2 million or \$3 million business a year will survive much longer. About 50 percent of these lines have disappeared in the past seven to ten years alone.

Since you are not particularly disturbed by ICC, how do you regard your relationship with government generally?

With so many new regulations, so many new agencies, there is somebody from government in the office all the time. There are forms to be filled out by the thousands. It runs our costs up terribly.

Have you had occasion to compute what it costs your company just to satisfy the requirements of government?

No, but it would be a staggering figure.

A sign on the Richmond terminal gates reads: "We have promises to keep, and miles to travel before we sleep." What is the significance?

We borrowed this quote just as a little reminder to the drivers, since we can't pat each of them on the back every time they drive out.

You place great emphasis on keeping your drivers happy. Does this pay off?

Oh, yes. A driver who is happy, who has a happy home life, makes a better driver. He has fewer accidents, uses less fuel. His truck requires less maintenance. If a fellow is not happy in life, he starts off too fast, stops too suddenly. If he doesn't care about his home, he doesn't care about his equipment or job.

I can see how you can create a happy environment for a driver on the job, but how do you create happiness in his home life?

By spending a little more time working out our drivers' schedules. We go out of our way to see that most drivers are home four days out of seven.

Our sleeper cabs are manned on a voluntary basis. The drivers who vol-

unteer make a little more money, but they are away from home a little more. We find that the driver with the happy home life usually takes the less strenuous runs.

Not all companies do this?

No. They leave scheduling up to people who don't take these factors into consideration.

How does today's driver compare with when you were behind the wheel?

He is a much better driver but not as good a mechanic. Our drivers are all better trained. They border on being professional. In my time we were jacks-of-all-trades.

Your drivers are given physical examinations every year instead of every two years as the government requires?

Yes. This probably accounts for the fact that they drive more years than most. Quite a few of our drivers stay on the road until they are 65.

Overnite has had many good years, but 1966 seems to be the exception. What happened?

That was a minirecession year, and we were slow in trimming our labor costs. Conditions did not improve as fast as we thought. That was the only time we had to lay off people in any numbers for lack of work.

Our policy has always been never to lay off people for lack of business or preceding a holiday such as Christmas or Thanksgiving. In 1966, we saved as many jobs as we could. Road drivers were put on city trucks. City drivers were assigned to the warehouse. Part-time workers in the warehouse were laid off.

Would you describe the work management program you instituted in that same year?

This was the first time we brought engineers into our operation. An engineer looks at things entirely differently. The typical manager looks at a truck, a man, a carton of freight. The engineer sees something else. He can sit behind a desk and trace the movements of a truck. He can tell how many stops it makes, how many deliveries to a shopping center, etc.

Before this we might have three trucks going to the same shopping center. When you see three trucks in the outskirts going in the same direction, you know you have a lot of wasted

transportation. With these engineers and our work management program generally, we can reduce the number of trucks on the street by 12½ percent.

Do you like to poke around the terminals and the repair garages?

When I can, but that's not often. I remember last Christmas Eve and the day after Christmas. The weather was rainy and sloppy and too cold to go outdoors, so I just came down to the terminal here and kicked around. You see a lot of things when there aren't any people around. I take advantage of these opportunities. It gives me a chance to browse around. I enjoy this.

What kind of workday do you keep?

From 8:30 in the morning to 5, as much as I can.

Do you take work home?

Yes. I never get caught up.

What about relaxation?

In the summertime, my farm operations give me a chance to get outside. In the winter, hunting is about the only relaxation I have. I am not a big football fan, not the kind to go out and shiver in the stadium. I do enjoy football on TV very much.

Do you make money from farming?

I've never made money, but the land value has improved greatly.

You started jogging recently?

Yes, from the house to the mailbox—nine tenths of a mile each way.

Do you have any regrets about not going to college?

Not really.

Looking back, would you have done anything differently in your business life?

As a guy who got 13 in a Latin test, I didn't have the right to expect too much. I feel I have made the most of opportunities that came my way. A few slipped by, but I don't look back to see which ones got away.

It sounds like you have had quite a satisfying life.

I have. I was talking to my wife just the other day about how much I enjoyed going to work. I can't think of a period in my life when I did not look forward to going to work. □



To order reprints of this article, see page 32.

Growing Fear of Double-Digit Inflation

The latest Gallup-National Chamber poll provides revelations
on what top executives
see ahead for the economy and their companies

"MEN AND WOMEN who run American companies identify government policies as the major cause of inflation," says Dr. Jack Carlson, vice president and chief economist of the Chamber of Commerce of the United States.

This is shown, he says, in the third quarterly business confidence survey conducted by the National Chamber and the Gallup Organization.

"Almost all chief executives rank the size of the federal deficit as a 'very important' cause of inflation," Dr.

Carlson emphasizes. "Also identified as important causes of inflation are government increases in Social Security, federal pay, the federal minimum wage, farm price supports, unemployment insurance, and workmen's compensation."

Union wage increases are listed second among the causes of inflation by the executives polled. The survey was conducted after the very large wage settlement in the coal industry earlier this year.

The decline in the value of the U. S. dollar, causing import prices to increase, is ranked seventh as an inflation cause. Executives contend that business profit margins are an insignificant source of inflation, ranking this last as a cause.

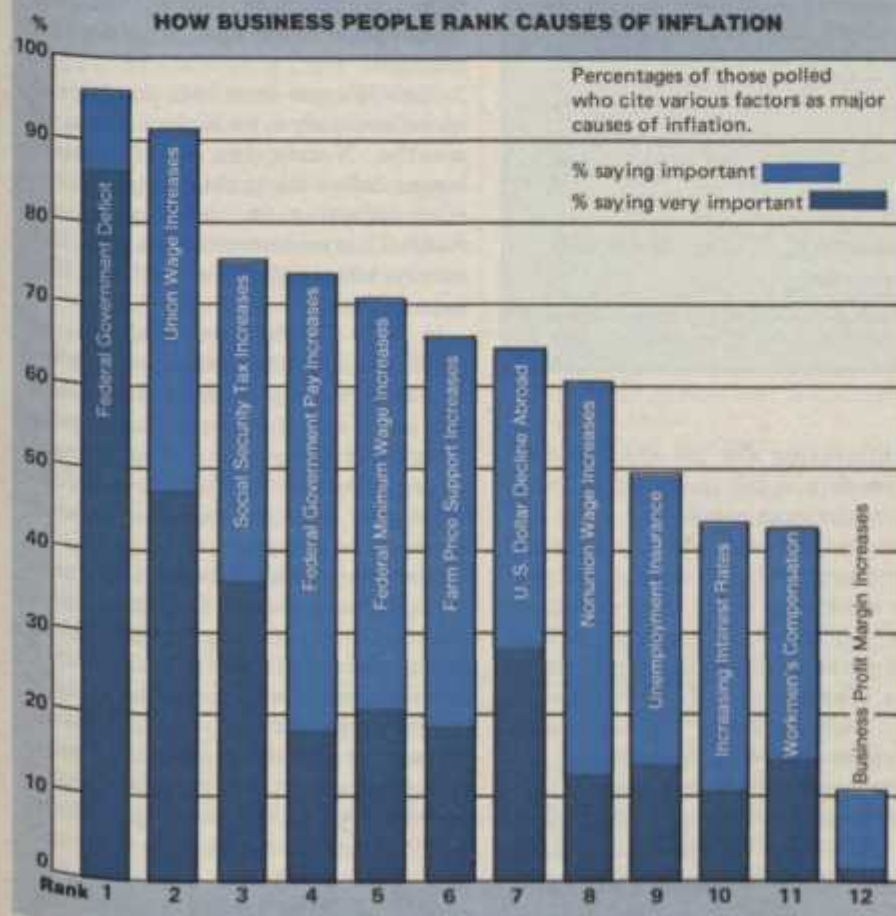
Losing confidence

The survey reveals that "the key business leaders are losing confidence in the federal government's ability to fight inflation and unemployment," says Jay Schmiedeskamp, vice president of the Gallup Organization.

He says the latest survey shows that fully 68 percent of the respondents expect the government to do a poor job in this respect, which is a substantial increase from the already high level (more than 50 percent) that has prevailed during the past six months. Hardly any expect the government to do a "good job," says Mr. Schmiedeskamp.

The scientific poll was taken among 1,100 chief executives representing ev-

HOW BUSINESS PEOPLE RANK CAUSES OF INFLATION



every size company, every industry, and a geographical cross section of the country.

The average executive says there is a 35 percent chance of double-digit inflation within 12 months and a 46 percent chance within 24 months. This is a higher expectation of inflation than shown in the survey taken last winter.

More than three quarters of the

of the executives expect predominantly good times, while 21 percent anticipate bad times. Forty-one percent take a middle position, saying there will be both good and bad times in the economy. Executives in agriculture, fishing, mining, utilities, wholesaling, and service industries are the most ambivalent. Executives in the retail trade, finance, insurance, real estate, and

trade, utilities, and construction indicate disproportionately large investments in the central areas of major cities.

One reason for the hesitance of American business to expand investment is the increasing belief that the voluntary wage and price measures which President Carter has initiated will become mandatory, making it difficult for business investors to recover their costs and obtain an adequate return for their risk.

The fall survey, taken before the administration announced voluntary controls, revealed 31 percent of the business leaders thought mandatory controls were at least somewhat likely. After the voluntary controls were initiated, the winter survey revealed 44 percent thought mandatory controls likely. The expectation of mandatory controls has now risen to 53 percent. Mandatory controls are anticipated by a majority of business executives in almost all industries.

Fear trade barriers

As was true in previous surveys, chief executive officers are nonetheless optimistic about their own abilities to perform better than the economy as a whole.

About four fifths of the respondents expect higher sales both in one year and in four years, after adjusting for inflation.

Slightly more than half expect profits before taxes to be higher within 12 months. Nearly two thirds expect higher before-tax profits in four years, after adjusting for inflation—a substantial improvement from the fall survey, when just above half had this expectation.

In spite of public claims that taxes are being simplified, a large proportion of business people—large and small and in all industries—say that regulations and requirements of the Internal Revenue Service take up more of their employees' time and their companies' money than two years ago.

Also, the survey shows the business leaders fear measures that limit international trade (duties, tariffs, quotas, exchange controls, and other nontariff barriers), whether imposed by foreign governments or the U. S. government. More than two fifths expect their profits to be hurt if trade barriers are imposed. Less than one fifth expect there would be improvement. □

HOW WILL THE GOVERNMENT DO AT FIGHTING INFLATION AND UNEMPLOYMENT?

	Fall Poll 1977	Winter Poll 1978	Current Poll 1978
Good Job	1%	2%	1%
Fair Job	43%	42%	31%
Poor Job	55%	56%	68%

CHANCE OF A RECESSION

	Fall Poll 1977	Winter Poll 1978	Current Poll 1978
Within 12 Months	27%	26%	31%
Within 24 Months	44%	43%	48%

CHANCE OF DOUBLE-DIGIT INFLATION

	Winter Poll 1978	Current Poll 1978
Within 12 Months	23%	35%
Within 24 Months	38%	46%

PROPORTION OF BUSINESS LEADERS THAT EXPECT MANDATORY WAGE-PRICE CONTROLS WITHIN TWO YEARS

	Fall Poll 1977	Winter Poll 1978	Current Poll 1978
	31%	44%	53%

GENERAL BUSINESS CLIMATE

	Fall Poll 1977	Winter Poll 1978	Current Poll 1978
Becoming More Favorable	6%	5%	4%
Becoming Less Favorable	74%	74%	76%
No Change	20%	20%	18%

PROSPECT FOR INCREASES IN SALES AND PROFITS AFTER ADJUSTING FOR INFLATION

	Fall Poll 1977	Winter Poll 1978	Current Poll 1978
Sales:			
1 year	N.A.	78%	79%
4 years	85%	85%	84%
Before-Tax Profits:			
1 year	N.A.	51%	54%
4 years	53%	62%	65%

business leaders say the general business climate is becoming less favorable for their companies to "carry on and make a profit." The proportion of executives holding this sentiment has remained consistently at this high level for the past six months.

Good and bad times

Fears of a recession are increasing. The average executive says there is a 31 percent chance of one within 12 months and a 48 percent chance within 24 months. Those are the highest percentages since the quarterly survey was initiated last fall.

Over the next five years, 38 percent

manufacturing are the most optimistic. Leaders in the construction industry are the most pessimistic.

Because of doubts about the effect of government policies on the economy over the longer term, chief executives have been investing cautiously in long-lived plant expansion and new structures. They have been more positive about putting funds into equipment and other short-lived investment.

Business people expect to make their investments broadly—in rural areas and cities of all sizes, including the central cities. Small business executives and executives in finance, insurance, real estate, services, wholesale



To order reprints of this article, see page 32.

The Unknown Cost of Doling Out Federal Dollars

"THE FEDERAL Government Should but Doesn't Know the Cost of Administering Its Assistance Programs."

That is the revealing title of a recent report by the General Accounting Office. GAO had set out to determine personnel and other costs involved in delivering federal dollars to state and local governments.

The agency studied a sampling of 72 of the estimated 450 programs under which \$70 billion flows annually from Washington to state and local governments.

No systematic method

Included in the sampling were programs in the fields of education, manpower training, health, conservation, economic development, agriculture, welfare-law enforcement, highway construction, water resources, and aid to the aging.

GAO's findings:

"The federal government lacks a systematic method of determining what it costs to administer its numerous domestic assistance programs.

"Information on the costs and functions of administering these programs is needed to determine the efficiency of their administration to find less costly ways to provide assistance. . . .

"Attempts to analyze and compare the efficiency of the various administrative methods used have had limited success. This is attributable in large part to lack of information on financial and staff resources used. . . .

"The percentage of available funds spent for administration under the 72 programs ranged widely—from 0.3 percent to 28.5 percent. Consumption of dollar and staff resources varied considerably for programs of similar size, distribution method, administrative network, and service provided, and even with the same programs from state to state."

GAO said it had also determined that "agencies consistently excluded costs for centralized support services, usually at the departmental level." Proper allocation of those costs, the office said, "could add substantially to administrative costs."

For example, the report said, the Labor Department's Employment and Training Administration said its head-

quarters costs for administering the Comprehensive Education and Training Act were \$6.8 million a year. GAO commented: "This amount, however, did not include an allocation of the \$27 million in central Department of Labor support costs."

The report cited instances of how

costs of administering the same programs varied from state to state. The study covered federal region X, which includes Idaho, Oregon, Washington, and Alaska.

GAO has suggested that such information could be used to improve the process of delivering federal dollars. □

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Business Life-Style

The Sound of Wings

By John Costello

FOR Philander P. Claxton III, that moth-eaten maxim, if at first you don't succeed, try, try again, is too namby-pamby.

His motto: If at first you don't succeed, try, try, try, TRY again.

That's how the McLean, Va., businessman set a round-the-world speed record last November on his fifth attempt.

Phil, accompanied by a copilot, circled the globe in four days, eight hours, five minutes, and 30 seconds, the best time yet for a piston-engine plane in the weight class of his twin-engine Aerostar 601P.

The 32-year-old chief executive of Watkins Corp., which operates a string

From the open cockpit of his rebuilt biplane, a pilot relives the old goggles-and-helmet era of aviation. Of the 750,000 licensed pilots in the U. S., many fly in such planes as the Cessna trainer or the family-size Beech Sundowner. When the Experimental Aircraft Association holds its annual fly-in at Oshkosh, Wis., it becomes the busiest airport in the world for a week, with 70,000 takeoffs and landings, compared with 18,000 at Chicago's O'Hare Field, the busiest airport in the world 51 weeks a year.



of restaurants, is like many businessmen who are pilots: He seldom flies merely for pleasure.

But for Phil, a six-footer who is as trim as he was in his days as a half-back at Washington and Lee University, the 23,000-mile round-the-world flight was a challenge.

"In the summer of 1975," he says, "I read about two Australians setting the record for that piston-engine weight class. I thought, if they could do it, so can I."

As often happens with a bright Harvard M. B. A., he thought right.

WHAT does it cost to fly?

You can buy a single-engine plane with fixed landing gear for as little as \$11,000. Or you can go as high as \$80,000 for a six-seater—or even more than \$100,000, depending on the radio and electronics equipment you wish the plane to have.

Privately owned planes today often have equipment that is more sophisticated than the average commercial airliner had only two or three decades ago. Some, for example, have weather radar, as well as transponders that automatically transmit altitude information to air-traffic control centers. Many also have distance-measuring equipment that provides the fliers with continuous information on location and ground speed.

Twin-engine planes put you in a higher price bracket. From about \$80,000 for a four-seater to \$385,000 for one that seats 18.

Turboprops run from \$450,000 to \$1.3 million and turbojets from about \$950,000 to \$5 million.

Those prices are for new airplanes. Used planes, of course, cost less.

IF you are thrifty and handy, you can build your plane yourself.

Wicks Aircraft Supply sells a basic kit for a two-seater plane for \$2,550. Add engine, instruments, radio, and other equipment, Wicks says, and you'll be ready to fly for \$7,000 to \$11,000.

Stolp Starduster Corp. sells a kit for a single-seater. If you build it yourself, the plane will cost about \$12,000. Stolp's two-seater planes cost about \$17,000 to \$18,000 to put together.

"Only a handful of firms sell complete kits," says Jack Cox, editor in chief of "Sport Aviation" magazine. "But a multitude will sell you nuts and bolts and bits and pieces to assemble."

Or, says the Experimental Aircraft Association, you can buy plans for a mere \$10 to \$100 a set.

DO-IT-YOURSELFERS should notify the Federal Aviation Administration's Flight Standards Service of their plans.

FAA advises giving notification before the work starts, so the plane can be checked for safety as it is put together.

Kits are not like Erector sets, with all pre-cut parts ready to be bolted together. That's an FAA no-no.

"The major portion of the aircraft," the agency explains, must be "fabricated and assembled by persons who undertook the construction project solely for their own education or recreation."

Otherwise, FAA won't certify it.

More than 8,500 home-built planes, however, have been given clearance to fly by FAA.

Of course, the first plane to fly, on Dec. 17, 1903, was home-built—by the Wright brothers.

WOMEN fly, as well as men.

"The airplane doesn't know the difference," quips pilot Dora Dougherty Strother, head of an engineering group at Bell Helicopter-Texttron, Ft. Worth, a division of Texttron, Inc.

Dora flew with the WASP's, the Women's Air Force Service Pilots, during World War II.

Not even her first assignment killed her love of flying.

The assignment was piloting a plane towing practice targets at Camp Davis, N. C., where recruits were learning to fire anti-aircraft cannon.

"That's where I got my first gray



Lloyd Cox, of Griffin, Ga., enjoys his work as an Atlanta-based Delta Air Lines jet captain and check pilot, but his love of flying also includes the J3 Piper Cub which he modified and rebuilt in his garage.

The J3 is a pre-World War II trainer. The modern Piper trainer is the high-tailed Tomahawk.



hair," Dora says with a laugh. "Probably on a Monday. On Monday mornings, those guys weren't as accurate as they were the rest of the week."

After getting a Ph. D. in educational psychology, she joined Bell, where her group designs aircraft that fit the pilot's human characteristics. There, she has added a helicopter pilot rating to her glider, seaplane, and airline transport ratings.

She has also broken two international women's helicopter flight records: altitude and distance in a straight line.

Her altitude record, which she achieved in 1961, was 19,386 feet. Her distance record, set two days later, was 504.8 miles, from Ft. Worth to Jackson, Miss.

Why Jackson, Miss.?

"We had places laid out in several directions—including Laredo, Texas, and Yazoo City, Miss. I really wanted to go to Laredo. That's a romantic-sounding name.

"But Jackson was downwind."

How many Americans are licensed to fly?

Nearly 750,000. Of those licensed pilots, about 40,000 are women.

Only a small proportion of licensed pilots—about 46,000 of them—fly for airlines. The rest are people who wing it for fun or business.

The General Aviation Manufacturers Association says business flying is the biggest portion of general aviation—aviation that is nonmilitary and not part of commercial airlines' operations. Some 185,000 planes are in the general-aviation category, GAMA

says. Many of them are used partly or solely for business flying.

Business firms own more than 50,000 airplanes. More than half of the nation's biggest corporations have aircraft—in some cases a fleet, in some, only a single plane.

General aviation is big business. It employs 250,000 people and produces \$2 billion a year of America's gross national product.

About one out of every four planes made in the U. S. is exported.

JOHAN J. Matternas, president of Insurance Management of Washington, Inc., provides a good illustration of airplane ownership's value to business people.

His firm has branch offices in Philadelphia and two other Pennsylvania cities, Lancaster and Reading, and clients in many other places.

"Many cities don't have commercial air service," he says.

"If I flew to Reading or Lancaster, I'd have to change planes in Philadelphia. If I drove, it would take me three hours or more one way.

"Yet I can fly to Reading or Lancaster in 35 minutes in my Beech Bonanza."

If a family of four wants to leave its home in Memphis and drive to visit relatives in Philadelphia, GAMA points out, the 1,062-mile trip would take 20 hours, driving at 55 miles per hour.

That's two hard days of travel time. And the trip would require 66 gallons of gasoline, assuming a car is used that gets average gasoline mileage.

In a single-engine plane, the family could make the trip in seven hours—873 miles as the crow flies—on about the same amount of gas.

HARVEY W. Hottel, chairman of Harvey W. Hottel, Inc., a Rockville, Md., manufacturer of military-type air-conditioning and heating systems, also appreciates the convenience of flying.

"We have customers all over the U. S., from California to New England," he says.

Many of them live in cities that have no local air service.

Commercial airlines land at only about 400 of the country's 13,700 airfields.

Behind the controls of his company's Piper Twin Comanche, Harvey can fly to almost all 13,700.

"You can often save plenty of time if you fly there yourself," says the businessman, who got his private pilot's license in 1957 and his instrument rating four years ago.

Ask Robert E. Torray if he likes to fly.

"Oh, boy, and how," says the Washington executive.

"I love to fly. It's a very challenging pastime. It requires a lot of effort and alertness, but I like a challenge.

"And it's relaxing."

One ex-pilot says: "If you like to fly, being up in the wild, blue yonder is more soothing than taking a tranquilizer."

Bob Torray, head of his own investment management firm, buys that.

Occasionally, he flies for fun alone. However, flying itself, even on business, is recreation, he finds.

SAME with Harry C. McCreary, president of the McCreary Tire and Rubber Co., in Indiana, Pa.

"I have been an airplane nut since I was ten years old," he says. "My father learned to fly. I used to go out to the airport and hang over the fence, watching him, when he took lessons."

"During World War II, I was a ground pounder. I was in Italy, part of the time with the 88th Infantry. I used to look up at those Air Corps guys and envy them."

"After I got out of service, I learned to fly, but I didn't get serious about it until 1960."

"I had just spent three years in the field as a salesman for our company. Then I was called back to the home office, but with every intention of staying in the sales end of the business."

"I realized quickly that, if I didn't fly, I was going to spend a whole lot more time on the road than I wanted to spend."

"To go from Indiana, Pa., to any place requires an hour-and-35-minute

ride to the Pittsburgh airport. With a private plane that cruises at, say, 180 miles an hour, you can get to a lot of places in an hour and a half."

For instance, Baltimore, Buffalo, Detroit, and points in between.

"There's no 55-mile-an-hour limit in the sky," Harry says with a grin. "At least not yet."

GENE NORA Jessen, like more than 5,000 other women, is a member of The Ninety-Nines, Inc., an international association of women pilots.

Aviation, she says, has always been a big part of her life.

Gene Nora, whose husband, Bob, used to have a Beech Aircraft Co. dealership in Boise, Idaho, got her private pilot's license in 1956, when she was still in her teens. She worked her way through the University of Oklahoma, teaching flying.

She owes her early interest in aviation to her older brother, John Charles Stumbough.

"He wanted to get in the Civil Air Patrol when we lived at home in Evanston, Ill.," she says, "but he couldn't. He had a job that required him to work nights. So he couldn't attend the meet-

ings. He talked about it so much that I got interested. He encouraged me to go. I thought it would be neat, so I did."

Gene Nora has logged more than 3,500 hours in the air.

Meanwhile, her brother has never learned to fly.

THE Ninety-Nines, Inc., is two years shy of a 50th birthday.

It got airborne Nov. 2, 1929, at Curtiss Field, Long Island. Its name came from the number of charter members who organized it.

Its first president was Amelia Earhart.

Alice Shotwell Gustafson, vice president and general manager of the Anheuser-Busch distributorship in Pontiac, Mich., is one of the present-day Ninety-Niners.

Her agency, Hubert Distributors, Inc., was started in 1937 with two trucks. Today it has 26 trucks, busily bustling Budweiser, Michelob, and other Busch malt beverages all over Oakland County.

Alice is a skier, scuba diver, tennis player, and five times a Michigan state champion water-skier.

Why did she take up flying?

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There are lots of ways to risk your neck—or enjoy the view—in the thin blanket of air that hugs this blue-green marble, suspended in space, that we call Earth.

For example, hang-gliding, skydiving, ballooning, gliding, or soaring.

In one sense, gliding and soaring are the same thing.

To those who don't practice either art, the words are synonymous. But not to those who do.

"Gliding," says Dora Strother, "is free flight with no means of propulsion except updrafts. When you get more proficient, you go soaring."

Dora, a veteran soaring pilot, is chief of the human factors engineering and cockpit arrangement group in the engineering department of Bell Helicopter-Textron, Ft. Worth.

Lots of people soar. The Soaring Society of America, Inc., has more than 15,000 members.

Much of the credit for popularizing the sport in this country goes to three brothers: Paul, Will, and Ernest Schweizer, whose Schweizer Aircraft Corp. is the Ford and General Motors of sailplanes—the craft that people soar

in—rolled into one. The company is at Elmira, N. Y., which is the capital of soaring in America, just as Wichita, Kans., is the capital of general aviation. Wichita is where Beech, Cessna, and Gates Learjet are located.

Wichita gained its distinction in general aviation because Jake Moellendick, an Oklahoma wildcatter, bankrolled Billy Burke into building planes there in 1919.

Jake wasn't the easiest man in the world to get along with. Pretty soon, people fed up with Jake started their own successful companies. However, they stayed at home, sweet home—Wichita.

Elmira has the National Soaring Museum, where history is enshrined, and Harris Hill, where history is made.

A glider is an unsophisticated craft that usually won't go higher than its initial impetus—a pull from an auto or plane—will carry it. But a sailplane is a gull-like creature that, once launched into space, can ride thermals, ridge currents, or wave lifts up into the wild, blue yonder.

The altitude record for a sailplane is more than 46,000 feet. The U. S.

distance record is more than 700 miles. You fly far by thermal hopping—riding a rising current of warm air up to the clouds, then gliding in the direction you want to go until you find another thermal.

Or you may ride the upflowing currents that bounce skyward from a long ridge.

One soaring enthusiast says it is like hitchhiking.

Harris Hill was discovered by a German soaring expert, Dr. Wolfgang B. Klemperer, in 1930. Then Germany was a hotbed of soaring. Wolfgang, a soarer himself, came to this country to work for the Goodyear Rubber Co. Soaring buffs here asked him to find them a good hill.

In Germany, the hill was the Wasserkuppe, the cradle of German soaring.

The closest thing to it in America, Dr. Klemperer felt, was the area around Elmira, especially Harris Hill.

It was at Elmira that the first U. S. National Soaring Contest was held in 1930.

Twenty-two of the contests since then have been staged at Harris Hill.



John Matternas (above) is the president of Insurance Management of Washington, Inc. He enjoys washing and cleaning his V-tailed Bonanza on weekends. But during the week, he uses it as a transportation link with branch offices and clients.



Harvey W. Hottel flies his Twin Comanche for fun and business. He is chairman of a firm that makes air-conditioning and heating equipment in Rockville, Md.

"I was just looking for another mountain to climb."

She climbed it first in 1971, when she got her private pilot's license.

Now she flies her own Piper Twin Comanche—"Zip, zip," she says—to business meetings all over the state. And the challenge of flying hasn't worn thin.

"The fun part," she says, "is getting off the ground, getting up in the air, and being able to look around, maybe look down on the clouds. You just feel free and kind of leave your troubles on the ground."

"Then it's also a challenge. A commercial aircraft coming into a metropolitan airport has a pilot, a first officer, and an engineer on the larger planes. When I fly in there, I fly all by myself."

ON ANY sunny, summer weekend in Springfield, Va., Arthur C. Angelos, president of Golfmat Corp., gets

up early and tunes in a government weather service station.

"They have good weather reports, and they give Coast Guard reports," he says. "They give the wave heights at Smith Point, the wave heights at Thomas Light, information that is very valuable."

If the reports are good, he drives to Hyde Field in Prince Georges County, Md.

He keeps his Republic Seabee, a 1947 model, four-seater amphibian, there. He bought it in 1964.

"It's an antique," he says.

"When it was brand new, it sold for \$4,000 to \$6,000. Today a comparable airplane would sell in the upper sixties."

He backs his Seabee out of the hangar—it has a reversible prop—and heads for Chesapeake Bay to go fishing.

"If the waves are two feet high or more, I'm not going to mess with the

bay," he says. "It's a heavy airplane. It weighs more than 3,000 pounds. So I can land on whitecaps and take off on them. That is very uncomfortable, though."

"The airplane is steady when you're finally on the water. But in the process of landing and taking off, when you're half airborne and half waterborne, you bounce from wave top to wave top, and it's pretty rough."

"So I avoid that condition. I'm too old to mess around. I'm 55, baby."

Say the water's calm enough to land on comfortably. Then Art Angelos looks for fishing boats.

"Where the boats are congested," he says, "is where the fish are."

Art will "fly around the outside of the boats to see if they're really catching anything. If they're crowded in, and a lot of people are standing up in the stern, then you know they're really catching fish."

"If everybody is sitting down, and they're all looking up at you and waving, and the boats are sort of spread out—there are no fish there."

If there are fish, he lands and lets out a troll line—about 50 to 75 yards of wire line—and taxis the plane while he trolls. He uses lures made of surgical tubing, maybe Twenty-One Tonys.

"Twenty-One Tonys," he says, "are made by Tony Acetta, one of the big plug-makers. And the Twenty-One is the size."

"It's massive. It looks like a big fish going through the water."

Art Angelos also flies his company's Aero Commander on business, if he's going somewhere that has no commercial air service.

But trolling is the big thing.

"This summer," he says, with the confidence born of experience, "I'll probably catch 500 pounds of fish."

WHY do they all love to defy gravity, man's earthbound heritage, and the comfortable world of solid footing?

Amelia Earhart once tried to describe that urge in verse. The famed aviatrix, who set a string of women's flying records before vanishing on a Pacific flight, called it "Courage."

Courage is the price that life exacts for granting peace.

The soul that knows it not, knows no release

From little things.

*Knows not the livid loneliness of fear
Nor mountain heights, where bitter
joy can hear*

The sound of wings.

The Ultimate Tax Shelter



by
TED NICHOLAS

Tax experts are now referring to a small, privately owned corporation as "The Ultimate Tax Shelter." This is especially true since the passage of the Tax Reform Act of 1976. This law makes most former tax shelters either obsolete, or of little advantage. Investments affected include real estate, oil and gas drilling, cattle feeding, movies, etc. These former tax shelters have lost their attractiveness. Aside from that, these tax shelters required a large investment. Only a small segment of the population could benefit from them.

I've written a book showing how you can form your own corporation. I've taken all the mystery out of it. Thousands of people have already used the system for incorporation described in the book. I'll describe how you may obtain it without risk and with a valuable free bonus.

A corporation can be formed by anyone at surprisingly low cost. And the government encourages people to incorporate, which is a little known fact. The government has recognized the important role of small business in our country. Through favorable legislation incorporating a small business, hobby, or sideline is perfectly legal and ethical. There are numerous tax laws favorable to corporate owners. Some of them are remarkable in this age of ever-increasing taxation. Everyone of us needs all the tax shelter we can get!

Here are just a few of the advantages of having my book on incorporating. You can limit your personal liability. All that is at stake is the money you have invested. This amount can be zero to a few hundred or even a few thousand dollars. Your home, furniture, car, savings, or other possessions are not at risk. You can raise capital and still keep control of your business. You can put aside up to 25% of your income tax free. If you desire, you may wish to set up a non-profit corporation or operate a corporation anonymously. You will save from \$300 to \$1,000 simply by using the handy tear-out forms included in the book. All the things you need: certificate of incorporation, minutes, by-laws, etc., including complete instructions.

There are still other advantages. Your own corporation enables you to more easily maintain continuity and facilitate transfer of ownership. Tax free fringe benefits can be arranged. You can set up your health and life insurance and other programs for you and your family wherein they are tax deductible. Another very important option available to you through incorporation is a medical reim-

bursment plan (MRP). Under an MRP, all medical, dental, pharmaceutical expenses for you and your family can become tax deductible to the corporation. An unincorporated person must exclude the first 3% of family's medical expenses from a personal tax return. For an individual earning \$20,000 the first \$600 are not deductible.

Retirement plans, and pension and profit-sharing arrangements can be set up for you with far greater benefits than those available to self-employed individuals.

A word of caution. Incorporating may not be for you right now. However, my book will help you decide whether or not a corporation is for you now or in the future. I review all the advantages and disadvantages in depth. This choice is yours after learning all the options. If you do decide to incorporate, it can be done by mail quickly and within 48 hours. You never have to leave the privacy of your home.

I'll also reveal to you some startling facts. Why lawyers often charge substantial fees for incorporating when often they prefer not to, and why two-thirds of the New York and American Stock Exchange companies incorporate in Delaware.

You may wonder how others have successfully used the book. Not only a small unincorporated business, but enjoyable hobbies, part time businesses, and even existing jobs have been set up as full fledged corporations. You don't have to have a big business going to benefit. In fact, not many people realize some very important facts. There are 30,000 new businesses formed in the U.S. each and every month. 98% of them are small businesses; often just one individual working from home.

To gain all the advantages of incorporating, it doesn't matter where you live, your age, race, or sex. All that counts is your ideas. If you are looking for some new ideas, I believe my book will stimulate you in that area. I do know many small businessmen, housewives, hobbyists, engineers, and lawyers who have acted on the suggestions in my book. A woman who was my former secretary is incorporated. She is now grossing over \$30,000 working from her home by providing a secretarial service to me and other local businesses. She works her own hours and has all the corporate advantages.

I briefly mentioned that you can start with no capital whatsoever. I know it can be done, since I have formed 18 companies of my own, and I began each

one of them with nothing. Beginning at age 22, I incorporated my first company which was a candy manufacturing concern. Without credit or experience, I raised \$96,000. From that starting point grew a chain of 30 stores. I'm proud of the fact that at age 29 I was selected by a group of businessmen as one of the outstanding businessmen in the nation. As a result of this award, I received an invitation to personally meet with the President of the United States.

I wrote my book, *How To Form Your Own Corporation Without A Lawyer For Under \$50*, because I felt that many more people than otherwise would could become the President of their own corporations. As it has turned out, a very high proportion of all the corporations formed in America each month, at the present time are using my book to incorporate.

Just picture yourself in the position of President of your own corporation. My book gives you all the information you need to make your decision. Let me help you make your business dreams come true.

As a bonus for ordering my book now, I'll send you absolutely free a portfolio of valuable information. It's called "The Income Plan" and normally sells for \$9.95. It describes a unique plan that shows you how to convert most any job into your own corporation. You'll increase your take-home pay by up to 25% without an increase in salary or even changing jobs in many cases. If you are an employer, learn how to operate your business with independent contractors rather than employees. This means that you'll have no payroll records or withholding taxes to worry about. And you'll be complying with all I.R.S. guidelines. "The Income Plan" includes forms, examples and sample letter agreements to make it possible.

I personally guarantee your purchase in the fairest way I know. If you feel my book is not all that I've described, return it undamaged within 14 days and I'll promptly refund your money with no questions asked. If you should decide to return it, you may keep the bonus Income Portfolio for your trouble.

To get your copy, write the words "Corporation Book and Bonus" on a plain sheet of paper, along with your name and address. Enclose a check for \$14.95. There is no sales tax on your order and your purchase price is tax deductible. Mail your order to me, Ted Nicholas, c/o Enterprise Publishing Co., Dept. NB-8CC, 501 Beneficial Building Wilmington, Delaware 19801.

DEFENSE:

How Much Is Enough?

By Grover Heiman

FOR THREE DECADES, the fate of the nation and the fortunes of the defense industry have hinged on the answer to an ominous question:

How much military power does the United States need to deter the Soviets from unleashing a nuclear holocaust and to further restrain the Soviets and the other Warsaw Pact countries from launching a major non-nuclear war in

budget. And understanding it is no mean task, as Congress and the public find each year.

Annually, Congress follows the same ritualized scenario—scores of hearings, legions of witnesses from the Department of Defense, and often-vociferous haggling over the many billions of dollars involved and the roles and missions of the armed forces. This year is no differ-

Nation's Business INDUSTRY SPECIAL REPORT



to establish a respectable track record.

The denouement of this drama will come when Congress settles on the annual authorization and appropriation bills, which are almost certain to contain more shipbuilding funds than the President wants, but far less than what the Navy says it needs. In late May, the House signaled this intent by passing a \$38 billion procurement authorization bill that contains \$2.1 billion for a nuclear-powered carrier and \$1.1 billion for a nuclear-powered cruiser, neither of which Mr. Carter wanted to fund this year.

Watching the outcome as eagerly as the military services will be the wide panoply of companies that form the core of the defense industry—prime contractors in aerospace, shipbuilding, electronics, and ordnance—and firms and institutions that do research and development for the Defense Department. At stake are contracts totaling many billions of dollars.

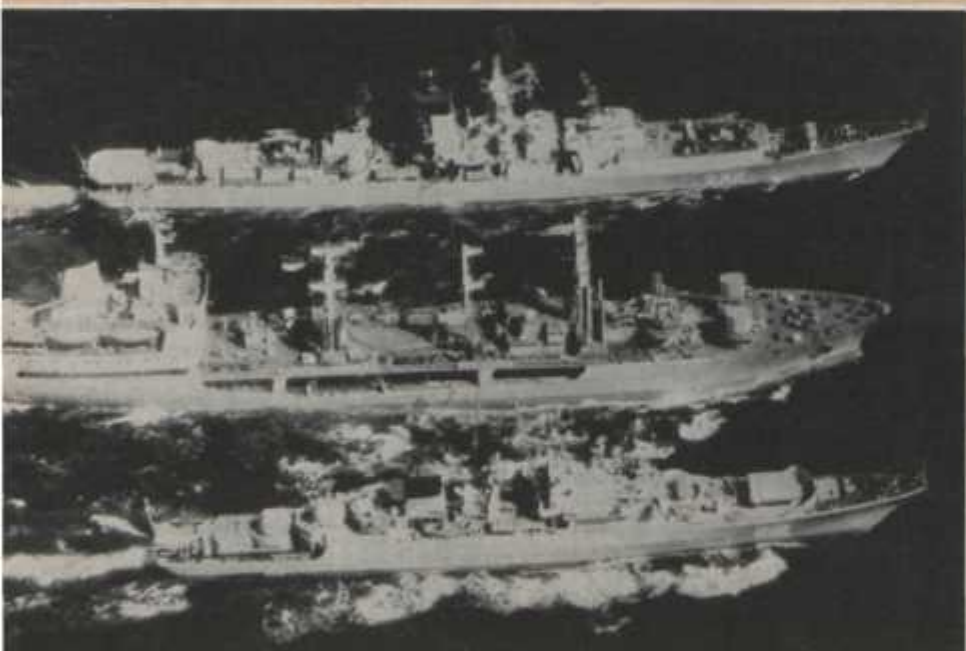
Equally interested will be many thousands of large and small suppliers that vie for subcontracts. And areas where plants that make defense products are located or where defense installations often provide the major payroll.

Economic Impact

The Department of Defense annually spends about \$50 billion for purchased goods, services, and construction—about three percent of the private-sector output. Salaries and other personnel costs for 2.05 million active military and one million civilian employees amount to about \$48 billion. To this must be added \$10.2 billion in military retirement pay.

Defense Department employment, both military and civilian, accounts for about one fifth of all public-sector jobs in the U. S. In the private sector, according to the Pentagon, defense industry employment totals nearly 1.8 million—about three percent of private-sector jobs. When public and private-sector jobs are added together, the total is impressive—4.8 million jobs.

Every state has a piece of the action, a fact that kindles keen interest in Congress whenever the defense budget is



The formidable Soviet fleet, which outnumbers the U. S. Navy in surface ships and subs, can operate widely by replenishing while underway. In mid-Atlantic, a guided-missile cruiser (top) and destroyer (below) take on supplies.

Europe and lesser wars elsewhere?

The answer of each administration and each Congress ostensibly can be inferred from the national defense budget, which has been shrinking annually in comparison to the total national budget—though it still represents more than half of the federal government's discretionary spending. Meanwhile, the Soviets continually pour a larger share of their rubles into an awesome war machine. The Pentagon estimates that their military spending is 32 percent more than ours.

To understand the magnitude, the problems, and the future of the defense industry, you have to understand the nation's defense blueprint—the defense

ent. If anything, the fiscal 1979 budget has stirred extra interest in Congress because it was worked out by the Carter administration and therefore indicates the shape of defense policy for the next four years.

And there is an unusual twist—Jimmy Carter, the Annapolis graduate and former nuclear submariner, has dismayed his former service with a drastically reduced shipbuilding plan. Seapower advocates charge his five-year shipbuilding program will in time cripple the Navy as a fighting force and jeopardize national security. As a result, a test of strength is taking place on Capitol Hill, an arena where the Navy over the years has excelled and where the President has yet

considered. Even if no complete weapon system—such as a fighter plane, tank, or submarine—is made in a state, the state is sure to have suppliers of parts, basic materials, or services for a weapon system or to have a military base. Many states have military installations, the closing of which would throw local economies into a deep recession.

California leads the way

The Pentagon annually announces a breakdown of prime contracts by states. California, by virtue of its aerospace industry concentration, consistently leads.

With \$10.08 billion in defense business, California firms had 22 percent of the prime contracts awarded in fiscal 1977. New York, with \$4.3 billion, was next. It was followed by Texas, \$2.78 billion; Massachusetts, \$2.39 billion; Missouri, \$2.36 billion; Virginia, \$2.03 billion; Connecticut, \$1.97 billion; Washington, \$1.73 billion; Pennsylvania, \$1.65 billion; and Michigan, \$1.24 billion, to round out the top ten. At the bottom of the state list was South Dakota, with \$13.28 million.

Fiscal 1978 marked an upturn in defense spending, and the budget for the coming fiscal year, says Defense Secretary Harold Brown, represents a real spending increase of more than three percent. This growth, however, is predicated on a six percent rate of inflation. The budget request is \$8.4 billion less than the fiscal 1979 budget projected by the Ford administration.

The Carter administration is requesting authority to obligate a whopping \$126 billion, compared to \$116.8 billion in fiscal 1978, which had a defense budget worked out by the Ford administration and modified only slightly by Mr. Carter. In actual outlays during the year, the new budget calls for spending \$115.2 billion.

In the opinion of many, this is not enough.

They point out that the Carter defense budget will be less than 25 percent of the total budget this coming year. Two decades ago, defense spending accounted for more than 47 percent of the budget.

The continuing debate

This spring, Dr. Eugene V. Rostow, who was Undersecretary of State in the Johnson administration, told a Senate panel that the Committee on the Present Danger, composed of distinguished Americans, is convinced that deterrence is in jeopardy today and "that the budget proposals of the administration are inadequate both in conception and amount."



"If deterrence of nuclear war is our most fundamental defense objective—and it surely is—what counts is what Soviet civilian and military leaders believe," says Secretary of Defense Harold Brown (left). "On that score, unfortunately, we face another uncertainty. What we see as sufficient for security may appear as quite inadequate to them. What would deter us might not deter them. What some of us consider credible as a deterrent, they may dismiss as a bluff. Great caution and careful hedging are essential in the face of these uncertainties."



President Carter's controversial decision not to go into production of the Rockwell International-built supersonic B-1 strategic bomber (above) means the Air Force will have to continue flying 20-year-old Boeing-built B-52's.

This contradicted an assessment given Congress by Secretary Brown. While confirming that the Soviets have become a serious military competitor, the Secretary cautioned against crash programs or panic efforts.

"They have not suddenly achieved that status of a Goliath any more than we have ended up abruptly as a David at the end of an inoperative slingshot," he said. "Although both of us are heavyweights, I am confident that we remain the more agile of the two."

This agility depends in large part on the defense industry.

The industry, says Dr. Allen E. Puckett, president of Hughes Aircraft Co., "has been challenged by some of the

most difficult technical assignments ever undertaken in our modern society. We have come to expect as a way of life the establishment of technical goals which are at the edge of the impossible."

Soviets' naval challenge

There seems to be general agreement this year that the Navy, although it still gets a larger share of the budget than the other services, has been broadsided. Already facing \$2.7 billion in cost overruns in the shipbuilding program and locked in a bitter battle with certain contractors, the Navy was further stunned when Mr. Carter summarily tossed out a five-year Ford administration shipbuilding schedule, which the Navy consid-



ered inadequate at best. Mr. Ford's program called for constructing 157 ships. Mr. Carter's calls for 70 ships.

To seapower advocates, this implies that a surface force strong enough to maintain supremacy over a rapidly growing Soviet navy in both the Atlantic and Pacific does not figure in the long-range picture. As a result, the pressure on Congress has been intense. A key defense industry official grumbles: "The Navy seems to think it works for Con-

fense trends. "Whether this result was intended or not, the distribution of the defense budget makes clear that NATO preparedness is being purchased at the expense of other capabilities. Whether this is a wise choice or not, it is a choice that should be made consciously by the American people and their elected representatives."

Dr. Rostow told the Senate committee: "The government is in a strange mood, a mood which reminds me of the

can deliver. No claim of this type is made by the Pentagon in comparisons of conventional forces. With the exception of naval power and helicopters, the Warsaw Pact nations have an overwhelming superiority in numbers over the 15 NATO nations.

Narrower technology gap

The gravity of the situation was spelled out for Congress this spring by Dr. Percy A. Pierre, the Army's Assistant Secretary for Research, Development, and Acquisition: "During the past 18 months, our side has acknowledged a Soviet modernization program of unprecedented magnitude. The Soviets are deploying impressive, sophisticated equipment now, equipment incorporating technology against which we will not have comparable counters until the mid-1980's."

Air Force Gen. David C. Jones, new chairman of the Joint Chiefs of Staff, says: "In the past, we have depended on superior quality to offset Soviet numerical advantages. However, in recent years, the Soviets have not only held onto their lead in numbers, but their newer systems have also narrowed the technology gap. Therefore, in the years ahead, I foresee a need for increased emphasis on R & D in order to reassert an unassailable technological superiority for the U. S."

And the battle over dollars will continue to rage.

Huge procurements

The armed services and the Department of Defense agencies this coming fiscal year want authority to obligate \$31.9 billion to procure weapon systems, such as ships, tanks, aircraft, and missiles, plus \$12.5 billion for research and development of weapon systems.

Next to R & D, the largest dollar item in the proposed Carter administration procurement budget is nearly \$12 billion for 496 fixed-wing aircraft and 237 helicopters for all the services. The bill for 15 naval ships will come to \$4.7 billion, but Congress will almost certainly increase this despite the threat of a veto.

The services will be buying nearly 19,000 missiles of all types at a cost of \$4 billion. Ordnance items will cost \$4.8 billion. Included are 1,935 tanks and other tracked combat vehicles, 1,882 torpedoes, and 9,407 other weapons.

Spending on electronics and communications equipment continues to rise. It will be \$2.8 billion, up from \$1.9 billion two years ago. Purchases of other goods and services will add \$3.6 billion.

Among the service budgets, the Navy



The Army's new XM-1 tank has special armor and vastly improved shoot-on-the-move capability to cope with growing Soviet tank strength. The prime contractor is Chrysler Corp., which will produce the tank initially in Lima, Ohio.

gress and not the Secretary of Defense."

Actually, the size, role, and weapons of the Navy and the other services are creatures of both Congress and the administration. So if Congress in effect buys the kind of defense forces the new budget will provide, this will signal a distinct shift in priorities to essentially a Europe-only strategy.

In the NATO basket

The emphasis will be on building up the general—i.e., conventional—war forces in support of the North Atlantic Treaty Organization. The goal is to be able to fight one and a half wars simultaneously—a major land war in Europe and a smaller war elsewhere. Shipbuilding will be cut, and the strategic forces will remain static, at least until the SALT II arms control talks are concluded.

"The Carter defense program moves us in the direction of placing most of our eggs in the NATO basket," says Lawrence J. Korb, an American Enterprise Institute defense expert who has prepared a detailed study of 1979-83 de-

Thirties, when we and the British hesitated between action and inaction until it was too late to prevent World War II."

There are still people, he said, "who do not yet believe that Soviet military power exists and is being used to promote political ends. They are somnambulists, still bemused by lullabies of détente."

To Defense Department officials, the Soviet tune is no lullaby. Gen. George S. Brown, retiring chairman of the Joint Chiefs of Staff, bluntly told Congress: "The offensive military power of the U. S. S. R.—in particular the great destructive potential of its strategic nuclear forces—has expanded in just two decades to enormous proportions."

The Soviets have more than 2,300 land and sea-launched intercontinental ballistic missiles compared to 1,716 for the U. S. Only in manned bombers does the U. S. have an edge—two to one. The Defense Department, despite this, claims the U. S. triad of land and sea-based ICBM's and bombers can deliver 9,000 nuclear warheads and bombs compared to 4,500 that the U. S. S. R.



The hard-hitting Fairchild Industries-built Air Force A-10 (above) provides close air support for Army ground units.

The U. S. will buy more NATO-developed weapons, such as the French-German Roland short-range air defense missile (below).



There will be expanded use of satellites for defense. The heart of a new global system will be NAVSTAR (above).



Sale of McDonnell Douglas-built Air Force F-15 fighters (above) to Saudi Arabia caused considerable controversy in Congress.

U. S. forces frequently hold joint maneuvers with allies who often are U. S.-equipped. Below: In the field in Korea.





The Navy keeps 31 nuclear-powered subs in the Atlantic—each can fire 16 Poseidon missiles.

Nuclear-powered attack submarines (below) will be equipped with antiship missiles to counter the growing Soviet navy.



While the helicopter has largely replaced the landing craft, U. S. and allied troops (above) can still storm ashore.



U. S. naval power is extended by a capability to replenish at sea, which the carrier Nimitz is doing in the Caribbean (above).

A cut in naval shipbuilding will impact on private yards such as the busy Ingalls plant in Pascagoula, Miss. (below).



continues to get the most—\$41.7 billion—followed by the Air Force, \$35.6 billion, and the Army, \$32.1 billion.

An older Navy

Despite getting the largest share, the Navy is alarmed about its future role.

This spring, the Navy delivered a study to Congress entitled SEAPLAN 2000, which examined naval needs up to the turn of the century. The Navy developed three options. The one it termed least desirable—"judged to be a high risk"—calls for a minimum annual naval shipbuilding program of 18 vessels.

President Carter's plan calls for an average of 14 ships annually.

Sen. John Tower (R.-Texas), who had the Navy study printed in the "Congressional Record," warns that the Carter shipbuilding program will inevitably call for a redefinition of U. S. maritime strategy and adds: "Congress faces no more serious challenge this year than flatly rejecting the administration's proposed shipbuilding program."

Edwin M. Hood, president and chairman of the Shipbuilders Council of America, says that, under the Carter plan, there will be significantly less utilization of the nation's shipbuilding capacity and work force.

"In combination with less commercial production," he says, "we forecast a lay-off of between 45,000 and 50,000 people over the next four years."

America's shipyards currently employ 181,000 people directly, and purchases from suppliers have a multiplier effect which is responsible for as many as 150,000 more jobs. About half of the items that go into a ship come from outside suppliers.

Despite the outlook for shipbuilders, the defense industry, overall, expects steady growth in the next five years.

Emphasis on electronics

Take electronics.

The Electronic Industries Association estimates that 18 percent of the defense dollars spent today on procurement, research and development, and operations and maintenance is for some type of electronics.

By 1987, EIA predicts, this will increase to 21 percent. Today it is estimated that about 37 percent of the cost of a missile system, 27 percent of an aircraft, 21 percent of a ship, and six percent of an ordnance system is for electronics.

EIA calculates that \$13.87 billion in defense funds is being spent on electronics in fiscal 1978 and that the total will rise to \$18.46 billion (in constant dollars) by 1987. Leading in this 33 per-

NATION'S BUSINESS • JULY 1978

AEROSPACE: Facing Hungry Foreign Competitors

When Orville and Wilbur Wright sold the Army a rickety crate called Old Number One in 1909 for \$30,000, the aerospace industry was born.

Orville, as test pilot, had first tried to show the new weapon of war to Army brass the year before. He crashed, killing an Army officer passenger.

Since those days, the industry has had lean and fat eras in sales, but it has never been fat in profits.

Karl G. Harr, Jr., president of the Aerospace Industries Association of America, Inc., says: "Over the past ten years, the profits of all U. S. manufacturing industries have averaged just under five percent on sales. The comparable figure for the aerospace industry is less than three percent."

"So, far from rolling in profits, the aerospace industry is actually one of the nation's least profitable industries."

But it is one of the largest and most important. For some years, annual sales have topped \$30 billion, and this year, they are expected to reach \$35 billion.

And it is one of our largest export industries. About one fourth of the industry's output is shipped abroad. In calendar 1977, foreign sales were \$7.6 billion, of which \$2.5 billion was for defense products.

Prospects for the industry in the short term are good, says Mr. Harr. "I see a lot of ifs, but defense has always been an iffy business anyway."

The number of combat aircraft and other aerospace products bought by the Defense Department may not be impressive, but the number of dollars involved is—nearly \$16 billion in fiscal 1979. The price per unit keeps climbing. An Air Force F-15 fighter

costs \$16 million and a Navy F-14 fighter, a staggering \$28 million per copy.

The fiscal 1979 Pentagon purchases, roughly \$1 billion above fiscal 1978, will contribute to what is expected to be the aerospace industry's best year since 1970. But the years ahead are cause for growing concern in the industry, due to export restrictions on military equipment and on high-technology commercial products which could have military application.

The industry's only quarrel with the President's policy on foreign sales centers on the practical implications for our trade balance, says Mr. Harr. "The only thing we really have to offer the world market is high technology," he says.

For 25 years, he points out, the vast U. S. industrial base and resources have enabled the nation to press ahead with technology, making it difficult for other nations to compete.

"Now our competitors have recovered from World War II and have the appetite," he says. "They have always had the brainpower. They don't yet have the large research and development base this nation has, but they are coming along."

The condition of the U. S. industrial base is an important factor in the deterrence of conflict, particularly of non-nuclear wars.

"Our industrial base is adequate today," Mr. Harr says, "but we are seriously concerned about the base ten years from now because we see neglect, even discouragement, of research and development."

Since World War II, there has been tremendous U. S. investment in military research and development, but sources of funds now are hard to find, Mr. Harr says. The level of government R & D, he warns, is insufficient to maintain our leadership.



A major source of new aerospace contracts will be jet-powered cruise missiles, which can be launched by bombers, converted wide-body airliners, submarines, surface ships, and Army units. Boeing Co. and General Dynamics have developed versions for the Air Force and Navy. It is believed present plans call for building more than 10,000 of the low-altitude flying bombs. At left: the Boeing design.

THE NEW CHAIRMAN OF THE JOINT CHIEFS: Challenging Days Ahead

There wasn't much glamour that bitter winter day in the Thirties for a group of Army Air Corps fliers who had landed in Minot, N. Dak., on their way to Alaska. The engines of their bombers refused to start, and they had to build fires under them to heat the oil.

But a fire of another sort was kindled that day for a tall, dark-haired teenager who often hung around the little airport—a desire to be an Army Air Corps flier. A few years later, while attending the University of North Dakota and Minot State College, David C. Jones was in the Civilian Pilot Training Program and got his baptism in the air in a Piper Cub. Soon he had a private pilot's license and, in April, 1942, he was accepted as an aviation cadet. Nine months later, he had his wings.

The military is the only career he has had since then. He has climbed steadily through the Air Force hierarchy to the rank of four-star general and chief of staff of the Air Force.

This spring, he and his wife began making plans for retirement, which Dave Jones looked forward to with mixed emotions. They bought a townhouse under construction in the Washington suburb of Arlington, Va.

Then, on a quiet Saturday morning in April, a call came to Gen. Jones while he was at work at his desk on the fourth floor of the Pentagon. Secretary of Defense Harold Brown, who was working directly below him in his third floor office, asked him down for a chat.

The 56-year-old general, an instructor in World War II and a combat veteran of Korea and Viet Nam, joined his civilian chief, who said he and President Carter wanted Dave Jones to be the new chairman of the Joint Chiefs of Staff.

The selection came as a surprise to the other services. Normally, the position is alternated among the chiefs of the uniformed services, and this was the Army's turn.

Among the most surprised was Gen. Jones, a quiet professional who

says he never really contemplated the nomination. "I don't dwell on things like that or think ahead that much. I know some people do, but I don't."

His nomination also failed to please some in the Air Force and industry. They are still concerned because Gen. Jones, who initially fought hard for the B-1 bomber, did not press for reversal of the President's decision not to go into production on it. There is no question that Dave Jones would like to have a fleet of B-1's, but as a professional nonpolitical officer, he lives by the team player's dictum of fight as hard as you can for your views, but once the decision is made by your civilian superior, support it or look for a change of scenery. Strangely, this obedience to civilian control was questioned at his Senate confirmation hearings.

"I didn't seek this job," he says. "It's very demanding and I see very challenging days ahead." After a pause and a rueful smile, he adds: "I was acclimated toward retiring." But then he shakes his head and says: "I don't know if I can ever really retire in a literal sense. Maybe slow down someday; but for many years, I have been living with a radio or some form of communication by my side 24 hours a day. I've been in that mode almost as long as I can remember. It would be strange not to be."

What about the relationship with the President?

"I find that President Carter has warm memories of his days in the Navy. He's very interested in capability and in command and control. The joint chiefs have had good access and opportunity to speak with him and let our views be known. He doesn't always agree with those views, but we do have an opportunity to express ourselves."

On this Air Force chief of staff's desk is a sign inherited from a predecessor: "Air Force Spoken Here." This month, when Gen. Jones moved downstairs to the chairman's office on the second floor, the sign stayed behind.

As the senior military officer of the nation, the defense force he and other officials will lead in the event of conflict is a shadow of that of World War II from the standpoint of size, but it is a professional all-volunteer force that experts still rate more efficient



Gen. David C. Jones

than the Soviets', despite a disparity in numbers. The U. S. has:

- An Army of 772,000 military and 314,000 civilian employees. The combat units are organized into 16 divisions, equipped with approximately 7,500 tanks, 500 aircraft, 8,000 helicopters, 22,000 armored personnel carriers, 8,000 pieces of heavy artillery, and 3,000 heavy mortars.

- A Navy of 522,000 naval and 303,000 civilian employees, operating a fleet of more than 450 active ships. The fleet includes 13 attack aircraft carriers, equipped with 1,200 combat aircraft; 28 cruisers; 67 destroyers; 65 frigates; 64 amphibious warfare ships; 78 attack submarines; approximately 100 support and operations ships; and 41 ballistic missile submarines with 656 Polaris and Poseidon undersea-launched intercontinental ballistic missiles.

- A Marine Corps of 190,000 military personnel in three active combat divisions and three air wing teams equipped with approximately 575 tanks, 950 amphibious assault vehicles, and 1,500 combat aircraft and helicopters.

- An Air Force of 565,000 military and 234,000 civilian employees. There are approximately 400 strategic bombers, 600 aerial tankers, 330 air defense interceptors, 600 air transports, and 2,800 tactical fighters. The Air Force mans 1,000 Minuteman solid-propellant and 54 Titan liquid-propellant silo-launched intercontinental ballistic missiles.

- And reserve and National Guard elements which, under Defense Department total force policy, receive front-line equipment and train and work closely with their active counterparts to achieve a high state of readiness.

cent increase will be procurement, which will go from \$8.12 billion to \$11.6 billion.

Today an estimated 37 percent of defense R & D dollars is devoted to electronics. This is expected to be nearly 40 percent by 1987.

"The major growth areas," says Jean Caffiaux, a vice president of EIA, "will be in aircraft, missiles, ships, and communications."

Foreign sales dilemma

The outlook for the defense industry would be even brighter if there weren't new restrictions on foreign military sales. Presently, the industry has an estimated \$39 billion in foreign orders.

While the U. S. defense industry supports the general goal of reducing international arms sales, it contends that the tightened restrictions imposed by the Carter administration unfairly penalize Americans because weapons manufacturers in other countries have not been similarly hemmed in. Sales abroad, industry officials point out, save U. S. defense dollars by spreading the cost of research and development, keep the nation's vast industrial base active, and bring in needed dollars to partially offset the growing unfavorable balance of payments created by importing petroleum.

"The cumulative effect of the new restrictions is to make the U. S. defense industry less competitive," says EIA's Mr. Caffiaux. "The technology gap is closing, so if the customer can't get the product from the U. S., he simply goes elsewhere."

Another industry concern is the emphasis on more standardization of weapon systems with the other NATO nations. At a NATO summit meeting in Washington in late May, this was a key provision of a long-term defense program that was adopted.

Reasonable progress has been made in standardization, says Gen. Jones, but he adds: "NATO has a long way to go. It still channels too much of its resources and productive capability into systems and components which support only a narrow national slice of the total allied defense capability."

Gerald P. Dinneen, Assistant Secretary of Defense for Communications, Command, Control, and Intelligence, says there is a significant redundancy in American and other NATO nations' research and development programs. "Very often," he says, "four or five nations will produce the same type of equipment, ignoring the cost benefits of large production runs."

But there is a definite inclination on the Pentagon's part to purchase more



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THE PRIME CONTRACTORS: Multibillion-Dollar Prizes

Years ago, when tough Air Force Gen. Curtis E. LeMay, the man who built the Strategic Air Command into the formidable force that dominated defense spending in the 1950's, was asked whom he was rooting for in an upcoming Army-Navy football classic, he responded: "I hope they both lose."

While officially frowned upon, interservice rivalry gets more heated when it comes to carving out roles and missions which dictate who gets the dollars for defense weapon systems.

Defense firms, which often build weapons for more than one service, carefully refrain from openly participating in interservice debates. And that is understandable in view of the amount of business involved. According to the Defense Department, the top 100 defense contractors collectively received \$34.1 billion in prime contracts during fiscal 1977, or 67.7 percent of the \$50.4 billion awarded to all firms.

There were 11 U. S. firms that did a billion or more dollars in business with the Defense Department in fiscal 1977. McDonnell Douglas Corp., for the second consecutive year, was the leader, with \$2.6 billion—up \$110 million over fiscal 1976.

The second largest collection of contract dollars went to Lockheed Corp., \$1.7 billion; followed by United Technologies Corp., \$1.6 billion; Boeing Co., \$1.6 billion; General Electric Co., \$1.5 billion; Rockwell International Corp., \$1.5 billion; Grumman Corp., \$1.4 billion; General Dynamics Corp., \$1.4 billion; Hughes Aircraft Co., \$1.1 billion; and Northrop Corp. and Raytheon Co., \$1.04 billion each.

Rounding out the top 25 were Westinghouse Electric Corp.; Tenneco, Inc.; Sperry Rand Corp.; Chrysler Corp.; Litton Industries, Inc.; IBM Co.; Todd Shipyards Corp.; American Telephone and Telegraph Co.; Honeywell, Inc.; Textron, Inc.; Fairchild Industries, Inc.; Martin Marietta Corp.; General Motors Corp.; and RCA Corp.

weapon systems from other NATO-nation firms. Already, the U. S., for example, is equipping its armed forces with a French/German surface-to-air missile system, Belgian machine guns, and British mortars.

Says Gen. Jones: "Unless we buy more overseas, our allies will buy less from us and we will lose, militarily as well as economically."

Intellectual property rights

Defense industry officials note all the pluses of standardization. But according to Henry A. Miley, the retired Army four-star general who heads the American Defense Preparedness Association, there is a feeling in the industry "that we shouldn't be so hasty in giving away all this good technology."

"In the other NATO countries, by and large, the defense industries are either government-owned or heavily subsidized, and they have a different view on intellectual property rights. In our country, they belong to the guy who invented it and patented it."

The thing that concerns him most about the total defense budget is the small proportion assigned to procurement.

"What are we really manufacturing today in any volume?" Gen. Miley asks.

Defense experts estimate that the Soviets manufactured about 2,800 big combat tanks annually during the past five years. The fiscal 1979 budget proposal calls for the U. S. to produce a total of 480 M-60 tanks and 110 of the new XM-1's.

A cold industrial base

"The biggest problem facing the defense industry is the fact that it has a very large capacity but is underutilized," Gen. Miley says. "My long-term concern is downstream—if we need a rapid response from industry. If your industrial base is cold, your lead times are horrendous."

Currently only one defense contractor is capable of producing the castings needed for the M-60 tank. Another source is being readied. Fortunately, the 59-ton XM-1 tank uses a built-up type of turret that doesn't require this type of heavy press. The Army hopes to buy between 3,000 and 7,000 of these new tanks in the years ahead, at about \$1.4 million per copy.

"I have a horror of a base that gets too cold," says Gen. Miley. "I don't think that American industry is eroding in the sense that it is losing interest or enthusiasm; it's just that we are spending so little on the production base that it is

getting colder. This new budget is not going to warm up that base."

And there is the constant problem of procurement regulations and the costly paperwork involved. O. C. Boileau, president of Boeing Aerospace Co., a division of Boeing Co., says: "People spend too much time worrying about the weapon acquisition process, when the real problem for industry is the constancy of procurement." He adds that the Pentagon "needs to purchase products in a systematic and disciplined manner."

That constancy will depend primarily on the Soviets and how this nation's leaders read their intentions. The Pentagon's present long-range projections show a steadily rising budget. By fiscal 1983, the total will reach \$172.7 billion in that-year dollars and \$140.3 billion measured in today's dollars. As a percentage of gross national product, there will be a decline from 5.1 percent in fiscal 1979 to 4.8 percent in 1983.

No-win position?

In the days and years ahead, the Carter defense plan will be heatedly debated in Congress and elsewhere. Dr. Rostow, in his appearance before the Senate committee, raised the specter of Soviet strength becoming so great compared to ours that the Kremlin might be willing to accept the risk of nuclear war. And he expressed a concern of more and more Americans: "No President of the United States should ever be put in the position of having to choose between holocaust and the surrender of vital American interests."

Many think Jimmy Carter and the civilian hierarchy at the Pentagon have increased the likelihood of a President being in just that position because of such decisions as postponing production of the neutron (enhanced radiation) weapon and the B-1 bomber; failing to push ahead more rapidly with the Navy's Trident sea-launched missile program and a new land-mobile intercontinental ballistic missile, called the MX, for the Air Force; not accelerating research and development; and scuttling the naval shipbuilding program.

Today we have a viable and willing defense industry and a tremendous industrial base that could, if called upon, meet a surge in demand for weapons. Tomorrow, however, is another day. The growing concern is that the Carter administration is playing a strange form of Russian roulette in which the Kremlin is allowed to load the revolver. □



To order reprints of this article, see page 32.

Rescue for the Inflation-Weary Taxpayer?

By William Kroger

The issue of whether taxes should be cut to compensate for rises in the cost of living has surfaced in Congress. Here is a background report

THERE is an old saw that nothing is certain but death and taxes.

That may be true, but it is certainly also true that something can be done to reduce the tax burden.

For one thing, voters can take action as they recently have in several states (see "Taxpayers in Revolt," page 19.)

Another possibility—and right now it's just that, a possibility—is tax indexing. Simply defined, tax indexing is adjusting taxes according to the rate of inflation.

The principle is elementary: As long as there is inflation, income taxes go down.

Under current law, if a person receives a cost-of-living raise that purportedly keeps him up with inflation—as about half of American workers regularly do—he really falls behind inflation because of the tax bite taken out of the raise. And he may even wind up in a higher tax bracket.

What indexing does

If his income were indexed, however, the cost-of-living raise, or that portion of any raise equal to the inflation rate, would be offset by a lower level of taxes.

For example, if he received a six percent raise in a year of six percent inflation, six percent of his wages would be subtracted from his taxable income.

Even if his salary and any other income remained the same in that year, his taxable income could be cut six per-



Rep. Willis D. Gradison has introduced a bill that would index personal income tax brackets and standard deductions for the rate of inflation. Nearly 100 congressmen have cosponsored the measure, one of several tax indexing bills.

cent. Several other adjustments would have to be made to keep the system fair to both wage earner and government, but that basically is how indexing of personal income would work.

There is also a corporate application which is far more complex. More on this in a moment.

The present system is hardly fair to

the taxpayer where inflation is concerned. It is more than fair to the government.

Hidden taxes

At the U.S. Treasury, inflation proves to be a windfall through what tax experts call hidden taxes. The American income tax system is pro-

Gains for the Economy From Cutting Capital Gains Taxes



Rep. William A. Steiger predicts there will be a reduction in the maximum capital gains tax rate.

One tax-reducing measure that has sprung up in Congress—and that appears promising to business—would roll back the maximum long-term capital gains tax rate from the current level of about 50 percent to 25 percent. This would apply to both individuals and corporations.

The measure, introduced by Rep. William A. Steiger (R.-Wis.), a member of the House Ways and Means Committee, has gained much support in recent months. Rep. Steiger feels that "there will be a cut in the capital gains tax in 1978."

For individuals, the capital gains tax applies mainly to profit from sales of stocks and bonds, but it also applies to profit from the sale of a home or some personal property.

"Since 1969, we [Congress and

the other branches of the federal system] have clobbered everyone in the U. S. because of changes in tax policy," Rep. Steiger said during a recent "What's the Issue?" radio program. The program was produced by the Chamber of Commerce of the United States for broadcast over the Mutual Broadcasting System.

The congressman cited statistics showing that the capital gains tax has had a punitive effect on the American economy, including causing a large drop in issuance of stocks and the narrowing of other avenues of investment.

"There is a realization out there that we have to provide an incentive for investment," he said.

Congressman Steiger cited a May study by Merrill Lynch Economics, Inc., stating that if the maximum capital gains tax rate were reduced to 25 percent effective in the third quarter of 1978, the reduction would have the following impact on the economy:

- Improve the average rate of real growth in the gross national product to 3.5 percent as compared with the 3.3 percent forecast under current tax law.
- Reduce unemployment to 5.5 percent through the creation of 205,000 additional jobs by 1980.
- Reduce the federal budget deficit by \$2.3 billion in 1980.
- Create an additional \$3.2 billion in real fixed business investment over the period.

Another study, by Chase Econometric Associates, Inc., says that reducing the maximum capital gains tax

to 25 percent on Jan. 1, 1980, would increase the rate of GNP growth, in constant dollars, by two tenths of a percent annually between 1980 and 1985.

In the same period, the study says, the tax rate reduction would create 440,000 jobs, increase plant and equipment expenditures, and cut the federal budget deficit \$16 billion.

The arguments for a rollback in the capital gains tax are strong.

"If we're going to have our economy grow, have new technology, we have to have investment," said Rep. Steiger. He said all segments of society would benefit from a rollback.

The biggest single investment the average American has, excluding purchase of a home, is what is set aside for his retirement, said Rep. Steiger, and most pensions are invested in stocks. He said that with a rollback in the capital gains tax, more money would be returned for reinvestment and that this, in the long run, would tend to increase the amount of retirement income people receive.

The Treasury Department has argued against a rollback in the tax, saying it would cost the government too much.

But Dr. Richard L. Leshner, National Chamber president, said during the radio program on which Rep. Steiger appeared that with more investment, companies would grow and new companies would start up, creating more jobs. This would expand the tax base, generating more revenue which would benefit the Treasury, he said.

gressive, which means the more money a person makes, the more taxes he must pay. The system does not make a distinction between whether pay is increased only to keep up with inflation or not.

The Treasury Department estimates that tax receipts rise one and a half times as fast as the rate of inflation. For calendar year 1978, the department estimates that an additional \$6 billion in federal tax receipts will be generated from individual income because of inflation.

Emil M. Sunley, Treasury's deputy assistant secretary for tax analysis, ex-

plained in recent congressional testimony just how punitive the system can be:

"Consider a family consisting of a husband, wife, and two children, with an income of \$15,000. Their income tax based on 1977 rates would be \$1,385, or about 9.2 percent of income. Now, let's assume that inflation runs at a rate of seven percent this year... and assume further that this family's income increases by this same percentage.

"That would mean that their dollar income in 1978 would be \$16,050, but their real income—their actual spending power—would not have increased

at all above last year's level of \$15,000. Yet their income tax would rise to \$1,613, and, more importantly, their effective tax rate, which had been 9.2 percent in 1977, would rise to ten percent in 1978.

"If this high rate of inflation were to continue for ten years, this family, even though it had experienced no increases in real income, would see its effective tax rate climb to 17.8 percent, almost double what it had been in 1977."

Mr. Sunley's testimony was against tax indexing, at least for the near future. He said that periodic congression-

NATION'S BUSINESS • JULY 1978

al approval of tax reductions actually had returned more money to taxpayers than an indexing system would have done.

Arguments against indexing taxes range from predictions of accounting nightmares and horrendous amounts of paperwork to the theory that Congress should be the only body to decide when and how tax cuts should be made.

Opponents say that indexing would take much of the decision-making power about tax cuts out of congressional hands. They also say there would be less incentive to combat inflation under an indexing system because taxes automatically would be reduced by the inflation rate.

Ease congressional burden

Proponents, however, argue that indexing would take from Congress the worry and time-consuming problem of how much taxes should be reduced and who should get the most tax breaks. They say Congress would tend to become more fiscally aware than it now is because indexing would reduce the amount of revenue. And, they say, Congress, if it wanted to, could further reduce taxes anytime it chose to do so, regardless of indexing.

On the contention that indexing would reduce the incentive to fight inflation, proponents disagree, saying that there would be many areas where inflation would continue to be felt and that the necessity and desire to fight it would remain high.

Proponents also cite results of indexing in other countries to show that a personal income tax-indexing system would not create severe accounting problems.

The idea of indexing taxes has been debated for more than a quarter of a century. A number of other countries index taxes in one form or another, and some have been doing so for quite a few years. For example, Chile began indexing taxes in 1954, based on the minimum wage in that country, which was adjusted most years in accordance with the previous year's consumer price index.

Canadian experience

Perhaps the one system of indexing that most easily could be applied to the United States is in Canada, which began indexing personal income taxes in 1974.

The indexing system is built into the annual tax tables that Canadian taxpayers fill out. Tax brackets are ad-

justed in Canada based on the rate of inflation. The personal tax exemption also is adjusted, again in line with the rate of inflation. The vehicle used to figure the inflation rate is the consumer price index.

For the 1977 tax year, the rate was 8.6 percent, which was estimated to reduce revenues to the Canadian government that year by \$950 million.

In 1976, the adjustment was 11.3 percent, which reduced revenues that year by about \$1 billion. "Basically, it put \$1 billion back into the hands of the consumers," says Mary Freeman, economic officer of the Canadian embassy in Washington.

She says that figuring income taxes in Canada "is like Americans filling out their Form 1040. They just have to look at the tax table to know what their tax is. It precludes having to do a lot of figuring."

Pleased with indexing

The general mood in Canada about tax indexing is good, she says. "From our experience," she adds, "I don't see any paperwork nightmares."

Nick Le Pan, tax policy officer in the Canadian Department of Finance, agrees that the system is working smoothly. "It has come to be pretty well accepted and pretty well liked," he says.

He notes that the Canadian Parliament also has made a number of other tax cuts since tax indexing was introduced.

A third Canadian official, John Sargent, director of the fiscal policy division in the Department of Finance, says a major reason tax indexing was introduced in Canada was "public concern about the extent to which government had grown and the taxes people were having to pay."

In 1974, the year personal income tax indexing was introduced in Canada, federal spending grew 28.7 percent over the previous year. The next year saw a 22.9 percent growth.

Mr. Sargent explains that much of those increases was due to new programs and the introduction of an oil import subsidy program. In 1976, however, government spending increased only 9.4 percent, and last year it went up only 12.9 percent.

"Without indexing, revenues would have grown very fast, and there might have been some tendency to spend them," he says.

Mr. Sargent says that now, Canadian government spending has been brought more in line with the growth



Treasury official Emil M. Sunley gave Congress a graphic example of how a family's tax load outpaces its income.

of the country's gross national product.

What brought about Canada's move to index taxes was an outcry from the taxpayers.

American taxpayers, too, are balking at increasing taxes, and this has spurred the introduction in Congress of a number of bills for indexing, in one form or another. Rep. Willis D. Gradison, Jr. (R-Ohio), introduced a bill (H. R. 11413) in March that would index the personal income tax brackets and the standard deductions for the rate of inflation. As of last month, nearly 100 congressmen had cosponsored the measure. Various other tax-indexing bills have been introduced, and each has cosponsors.

Little chance now

But no tax-indexing measure before Congress appears to have enough steam to go far now.

A congressional aide who is close to the issue says that "the only way a bill will pass is if the ground swell from the people is great enough. If inflation keeps on, and people finally get tired of paying increasing taxes, then maybe they'll start complaining loud enough for their congressmen to hear. Now, too many congressmen don't want to even address the issue."

One reason that may explain the

How American Business Pays More Taxes Than It Should

The idea of indexing business income taxes brings shudders of disapproval to many people in the business world. They say such a system would be very complex to administer.

Instead, they seek other remedies for their tax ailments, which, in part, are brought about by inflation.

One such remedy offered by business is to alter the present system of double taxation of corporate income. Under current law, not only are corporate profits taxed, but shareholders are taxed on dividends, too. A business suggestion is to allow a tax credit to shareholders prorated on the amount of taxes paid by the firm paying dividends. This, business says, would put more money into the hands of investors, money which might be reinvested.

Another suggested spur to investment would be a rollback in the capital gains tax which, because of the minimum tax, now can be as high as 49 percent for an individual. A third investment spur would be to increase the business investment tax credit as an inducement to generate more funds for equipment.

Business also would like to see a reduction in the corporate tax rate on profits and a faster tax write-off for business assets.

Economists for the Chamber of Commerce of the United States found in a study that if taxes were reduced this year in several areas sought by business—a total reduction in business taxes of \$4 billion—more

than \$6.5 billion would be reinvested in business by 1982.

This would translate into new and expanded companies and more jobs, generating a larger tax base and creating more income taxes for the government, National Chamber officials say.

Business contends that such tax cuts are necessary for the health of the economy and that government is taking too much money from business coffers.

As an example, the Treasury Department, in a study based on 1972 corporate taxes with the built-in assumption that inflation was ten percent that year, found that, because of distortion of costs by inflation, American industry overpaid taxes by large amounts.

The railroad industry, based on the study, paid 233 percent more taxes than it should have. Airlines paid nearly twice what they should have. The finance, insurance, and real estate industry paid 68 percent more, and the communications industry and electric and gas utilities paid nearly half again what they should have paid.

In reality, the increase in inflation that year over 1971 was 3.3 percent, considerably less than the assumed ten percent in the study. But, because of inflation, American industry that year still paid more in taxes than it should have.

The increased payments, at least in part, were translated into increased

prices, which were paid by consumers. Indirectly, inflation and the current tax structure took money out of the pockets of American consumers.

The reasons for this can become complicated.

However, the following example, although simplified, shows one way in which the process works:

If you bought ten shirts wholesale at \$3 each and sold them for \$6 each, you would take in a total of \$60. Since your initial investment was \$30, your profit would be \$30. On that profit you pay taxes.

But with inflation, that shirt you bought for \$3 may now cost you \$4. Customarily, you would raise your price to cover the increased cost to you, but with constant turnover in inventory and lag time in bookkeeping, it is difficult to keep up with inflationary cost fluctuations. Because of this, your actual profit probably would be less than your books would show, and chances are you would pay more in taxes than you should.

American business overstates profit every year, because of inflation, and pays billions of dollars more in taxes than it should.

A Washington-based tax attorney told NATION'S BUSINESS:

"This is all a big boon to the Treasury, but it's coming out of the pockets of consumers. Because business is paying more taxes, there is a lag in business expansion, which means fewer jobs and less growth for the economy."

limited enthusiasm for indexing is the prediction by opponents that indexing will create an accounting nightmare.

Complex issue for business

This is especially so, they say, if indexing reaches into the business world—the world of inventories, depreciation, profits, and loans.

The Treasury Department's Mr. Sunley points out that indexing of any kind would call for "a complex alteration of the tax law."

He cautions that a change to indexing "would mean substantially increasing the complexity of the present system, greatly increasing the record-keeping requirements of individuals

and firms, and making fairly arbitrary decisions in many areas of income measurement in which no consensus has emerged to date from economists, accountants, or businessmen. Until we know more, it would be a mistake to proceed too rapidly."

Most tax experts agree that indexing business income taxes could create a red-tape jungle. Business income taxes, of course, are based on profits. And how a company derives its profits can be very complex, taxwise, because of such matters as the value of inventories.

Many opponents of tax indexing use the complexities of corporate indexing to discredit the idea altogether, but in-

dexing taxes in the business world and indexing personal income taxes are two different ideas. Canada is proving that indexing personal income taxes can work.

Determining factors

If any indexing is done in the U.S., it probably will be for personal income. But such a move will depend on whether the rate of inflation keeps going up and on how much the American taxpayers decry the level of taxes to which they are subjected.

Certainly, if tax indexing of personal income is not an idea whose time has come, it is an idea whose time may not be far off. □

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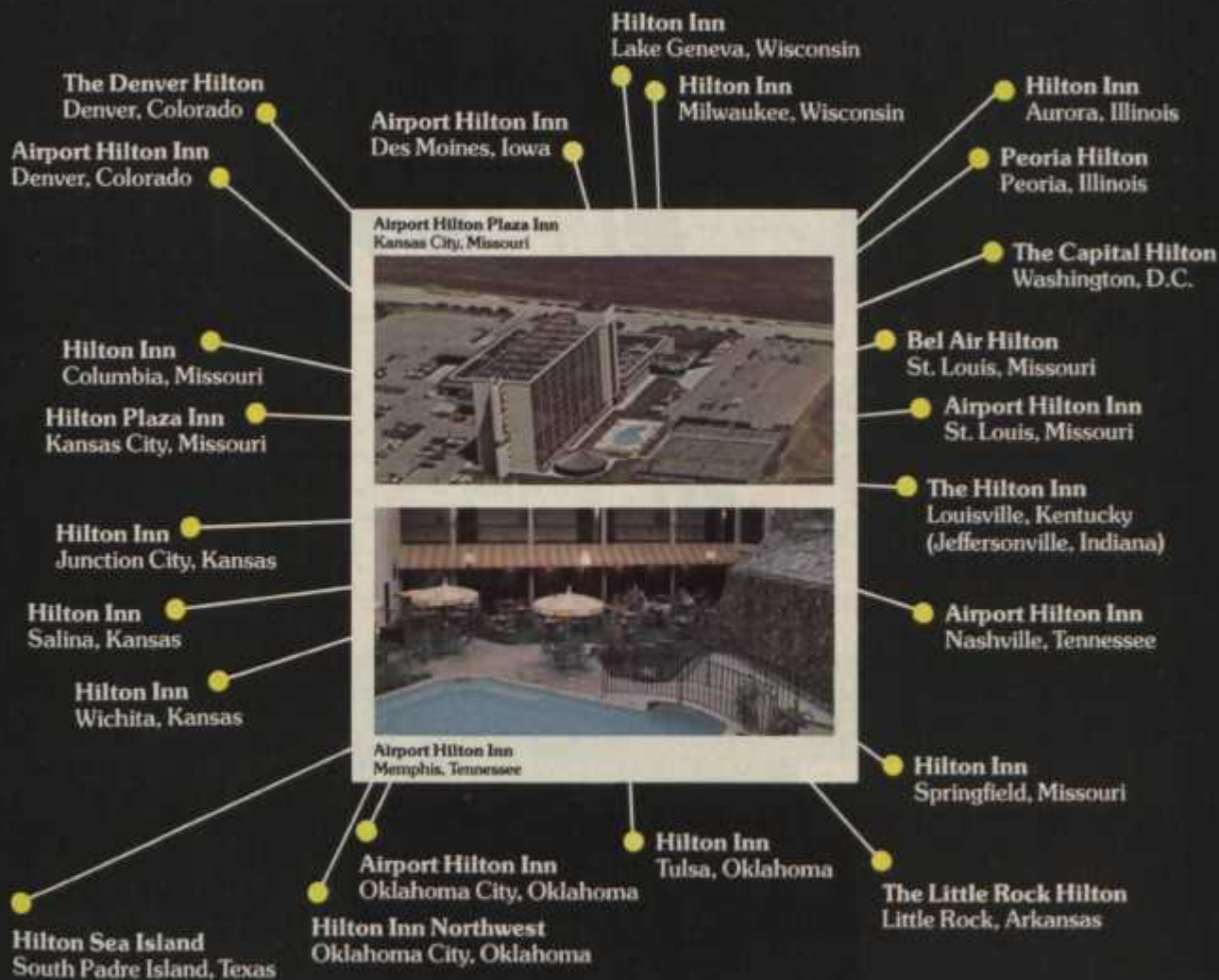
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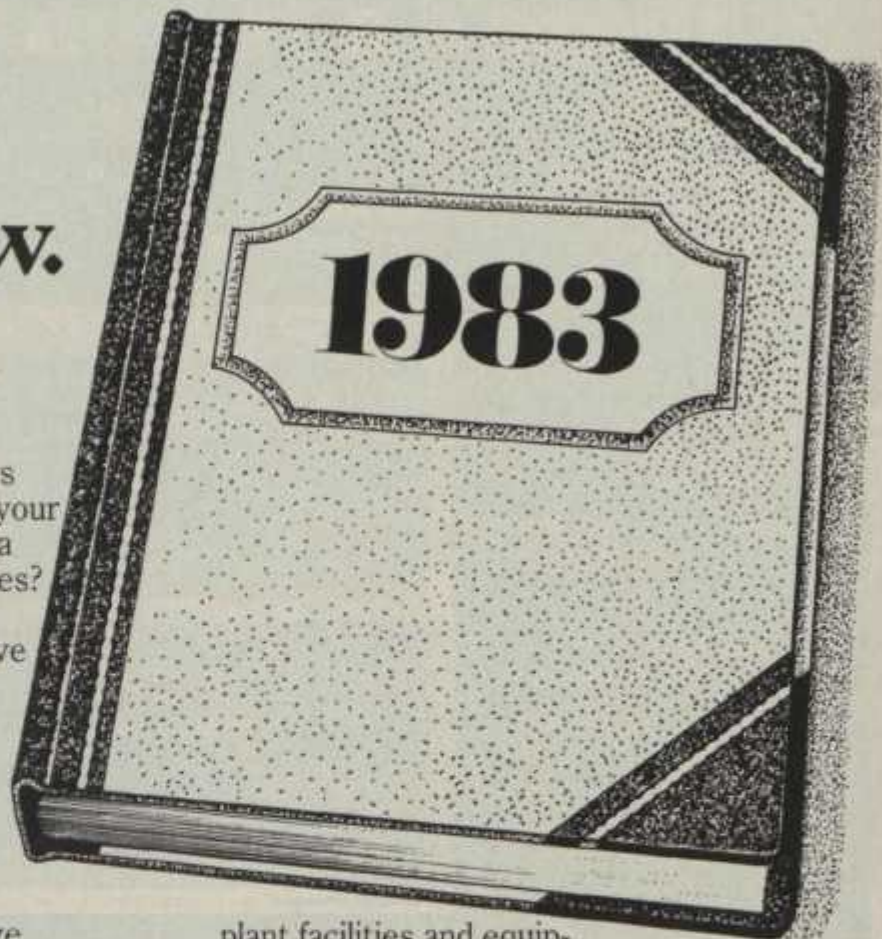
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The World of Industry

continued from page 8F

reus predict that Class I railroads—those doing more than \$50 million of business annually—will increase carloadings 0.9 percent in 1978 and 3.2 percent in 1979. Tonnage of Class I and Class II motor carriers—those having annual revenues upward of \$500,000—will increase 3.9 percent this year and four percent in 1979, ICC says.

Projections of railroad and motor carrier revenues are based on current trends in both the general economy and the surface transportation industry. One reason for the increase seen for rail carloadings, ICC says, is the backlog of coal shipments stemming from the coal strike. •

Ball-Point Pens Forge Ahead

Ball-point pens and mechanical pencils have topped the Writing Instruments Manufacturers Association's 1977 best-seller list, while overall retail sales of pens and pencils have surpassed \$1 billion for the first time.

WIMA statistics show pen and pencil sales last year increased 13 percent over 1976. Sales at the wholesale level were more than \$537.6 million and retail sales, about \$1.07 billion.

Ball-point pens remained ahead of competing fountain and porous-point pens and desk sets, setting a record of \$245 million in sales at the wholesale level. Approximately 1.56 billion units were sold, WIMA says.

In the pencil category, the sale of mechanical pencils was up 26 percent over 1976 figures, with manufacturers selling at least \$45.1 million worth to retail outlets.

"Dollar volume for writing instruments has jumped more than 26 percent in the past two years," says Louis Bishop, WIMA chairman. "We have seen a growing movement by consumers to seek out better quality writing instruments at all levels and are gratified by the sales growth this has produced over the past two years. We see this trend continuing for some time to come."

WIMA President L. Gordon McCoy predicts annual industry sales will double to more than \$2 billion at the retail level by 1985. □



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Congressional Impasse Keeps Valve Closed on Alaskan Gas

By Roberta Graham

A group of U. S. and Canadian firms is ready to build the world's longest natural gas pipeline, but Washington's inaction stalls this project that is vital to American business



The new gas pipeline will follow the oil line to Fairbanks, Alaska, where it will swing south through Canada to the U. S. border. It will then fork east and west.

JOHAN G. McMillian, chairman of Northwest Alaskan Pipeline Co., can be compared to a stock-car driver when there's trouble on the track.

He has the green flag to build the hottest construction project since the Trans-Alaska crude oil pipeline. But he is simultaneously slowed by a yellow caution flag waved by Congress because of its failure to pass energy legislation.

And like the race car driver, his principal enemy is time. In this instance, the delay in setting an energy policy is going to add to the estimated \$12 billion cost of bringing natural gas 4,800 miles from Prudhoe Bay across Alaska and Canada to the lower 48 states.

For starters, without a national energy policy, a consortium of natural gas companies headed by Northwest Pipeline will have a hard time estimating what it will charge for delivered gas. Lack of a final congressional price has caused investors to hold back from committing funds to construction, and delay means added cost dollars.

Taps huge reserves

The joint U. S.-Canadian construction project will tap approximately 26 trillion cubic feet of proven North Slope natural gas reserves. By the time gas begins to flow, the pipeline will be supplying the U. S. with 2.4 billion to

3.5 billion cubic feet of gas per day. The nation now uses between 17 billion and 19 billion cubic feet of gas daily.

Construction of this pipeline will ultimately be easier than the building of the Trans-Alaska crude oil line by the Alyeska Pipeline Service Co., Mr. McMillian says. "One of the most important advantages is that the gas line follows the Alyeska right-of-way for approximately 539 miles to Fairbanks and then follows the Alaska Highway and other existing transportation corridors for much of the remainder of the route," he says.

"Further, Alyeska was constructing a pipeline—much of it above ground—to transport oil ranging in temperature from 130 degrees to 160 degrees Fahrenheit. The oil, which comes out of the ground hot, must be kept at high temperatures so that it will continue to flow.

"Northwest will be constructing a pipeline for chilled natural gas, the temperature of which will remain below 32 degrees Fahrenheit while in the Arctic permafrost areas where soil degradation might occur. And the pipeline will be buried throughout most of the route."

In terms of management, Northwest will oversee construction in Alaska and the lower 48 states, and it will handle all policymaking and govern-

mental relations. Fluor Engineers & Constructors, Inc., a subsidiary of Fluor Corp., will manage field operations in Alaska.

The 2,028-mile segment of the line to be built through Canada will be coordinated by Northwest's Canadian partner, Foothills Pipelines (Yukon) Ltd. Five companies which comprise Foothills will each construct a segment of the line through Canada.

Since construction will not actually start until sometime in the 1980's, Mr. McMillian says 1978 and 1979 will be the years of pipeline planning and design. Yet to be determined are the size and type of pipe to be laid along the 731-mile Alaskan segment and the 2,041-mile line that will be laid in the lower U. S.

Construction begins in 1979

"The preliminary phase of construction will begin in 1979," Mr. McMillian says. "That includes the construction of gravel pads (areas that hold the heavy equipment and machinery), camps, and communications systems."

He adds: "The next phase—the main pipeline construction work—will begin in 1981-82 and be completed in 1983. The timetable is dependent on results of the \$200 million in pre-engineering studies, environmental studies, and geotechnical work that must precede

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the actual pipeline construction."

Congressional slowness in framing an energy bill has already caused serious problems for the consortium's construction timetable and budget. Until Congress acts, Northwest cannot decide on final design criteria, nor can a final price for North Slope gas be set.

Delay adds billions

In addition, Mr. McMillian says that delay caused by the lack of action has added billions to the project's costs in terms of rising interest rates on money borrowed from banks for construction and increasing prices of materials.

Robert S. Blair, chairman of Foot-hills, has estimated at least an eight-month delay in completing the line. The original target had been January,

overruns," Mr. McMillian says. "But a lot will depend on our ability to work with the federal government and have a clear definition of the pipeline stipulations, so we know and they know what is expected. We both must respect these stipulations and try to make this project as workable as possible, respecting all the environmental conditions and other factors."

Concerning financing, Mr. McMillian says each company involved in constructing the American portion of the line will advance funds. It is expected those funds will total at least 25 percent of the project's costs. Long-term debt financing will provide the remainder.

The consortium is putting up nearly \$24 million over the next six months to

dized, which could prevent the pipeline from being built.

Meanwhile, Alaska has been keeping a close eye on the financing situation. Northwest has been urging the state to join in the project as an equity partner, but the state has been slow in agreeing to such a commitment.

Price is problem

Pricing of North Slope Alaskan gas is generating concern for both the state and the pipeline consortium. Once again, lack of action on the Carter administration's energy bill is to blame, Mr. McMillian says, because the bill will establish the pricing mechanism.

The most recent congressional compromise sets the price of Alaskan gas at \$1.48 per thousand cubic feet at the wellhead. Add to this the cost of processing and transportation, plus inflation, and the initial cost to consumers would run between \$4.50 and \$5 per thousand cubic feet, Northwest says. For this reason, Northwest and natural gas utilities are urging that North Slope gas be "rolled in"—averaged in—with the current cost of gas already on line, so that the price to consumers will be competitive.

Meanwhile, the House Commerce Committee has issued a report putting the initial price of North Slope gas at \$7 per thousand cubic feet.

The difference, explains a committee staff member, is an added 90 cents per thousand cubic feet for processing the gas and an extra dollar to keep the price in line with historical differences between costs and what the gas consumer pays.

The energy bill thicket

Although conferees have agreed on a compromise that will allow for gradual natural-gas deregulation, with the price ceiling lifted by 1985, there remain several issues tied to the gas portion of the energy bill that could keep it in conference well into this month.

The House Commerce subcommittee on energy and power estimates it will take several weeks to convert the draft compromise into legislative language. Also, a controversial portion of the bill, involving what steps to take about so-called gasoline-guzzling autos, must be worked out.

Minus the tax portion of President Carter's original plan, the bill will then go to the House floor, where debate is expected to delay it through September, and to the Senate floor, where a filibuster seems likely. □

NATION'S BUSINESS • JULY 1978



Northwest Alaskan Pipeline Co. is negotiating with Alyeska Pipeline Service Co., builder of the Trans-Alaska crude oil line, for the Old Man Camp (above) and other facilities that were left behind after the oil line construction was ended.

1983, but he says the longer U. S. energy legislation is delayed, the longer it will take to build the pipeline.

Cost of constructing the pipeline is also a matter of debate. Mr. McMillian told NATION'S BUSINESS that it will be somewhere around \$12 billion, which includes a 7.5 percent inflation factor. This, however, does not take into account added costs from any further protracted delay by Congress.

Expects some overruns

"Historically, on all big projects, you have cost overruns, and in our financing plan, we do anticipate some cost

start design work, pipe testing, and permit processing. Although the consortium will accept new companies into the project up until the time of construction, Northwest hopes that the \$200 million needed for preconstruction work can be guaranteed before then.

However, financing will remain a question until the Federal Energy Regulatory Commission issues a final rule on investor rate of return.

The commission wants to heavily penalize the consortium for construction cost overruns. Northwest counters that private financing could be jeopard-

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PHOTO: KEITH/ETHA J. DODDSON



William Roscoe moved his double reed business to Erwin, Tenn., after an Internal Revenue hassle. Double reeds (above) are made from French cane, using skilled workers and machines Mr. Roscoe designed and built.

Success Despite Sour Notes

William A. Roscoe was utterly distraught the day the Internal Revenue Service cleaned out his checking account. "I never dreamed the government could do that," says Mr. Roscoe, who is president of Meason, Inc., a diminutive company that makes double reeds for oboes and bassoons.

Mr. Roscoe concedes he owed IRS close to \$700 that he had not deposited in a separate account for his employees' withholding taxes and Social Security, as required by law.

"When this IRS agent, a Mr. Wolfe, called me," says Mr. Roscoe, "I was about six weeks late. I told Mr. Wolfe that I would be able to pay very shortly, that my cash flow would improve, and he said to bring a statement of my business to his office."

But Mr. Roscoe's accountant would have charged about \$1,000 to take a statement off the books, and "that was more than I owed. I asked Mr. Wolfe to give me five days, and he said he couldn't do that, and I got angrier and angrier and finally slammed the phone down."

Mr. Roscoe sent IRS a check for the

interest on the debt, and then two more checks, one for \$125 and one for \$5, "to show my good faith. A few days later, I got a notice from the bank that IRS had taken all the money in my checking account, about \$600. I was stunned. I couldn't believe they could just go to my bank and take my money. I thought they would at least have to have a court order."

All IRS needs is the authority it already has in the Internal Revenue Code, Section 6331, which allows attachment of any property or other assets of a business that fails to pay withholding and Social Security taxes. An IRS spokesperson says: "We always send a notice of tardiness. But that money is not the employer's, it is the employee's taxes, and the employer has no right to it."

When Mr. Roscoe went to the local IRS office, "I tried to talk to Mr. Wolfe, to persuade him to give me a little more time to pay, and he said: 'If you don't have enough money to run your business, you shouldn't be in it.'"

The next day, Mr. Roscoe wasn't in it. He closed his shop and laid off his six employees. There were no more sales. "I spent the next six months, working all day, making reeds all by myself," he says. "Finally, I got the business back up to speed and rehired my people. Those six months were very bad."

At the time, Mr. Roscoe's enterprise

was located in Rockville, Md. Today, seven years later, he is comfortably settled in Erwin, Tenn., where he has a bright, airy shop, with homemade curtains on the windows, 13 employees, and a flourishing double reed business which he is planning to expand into making single reeds for clarinets and saxophones.

"The unique part of my business," he says, "is that I have only six major competitors in the whole world. Two are in France, and four are here in the United States. Of course, there are several hundred oboe and bassoon players who make reeds by hand for themselves and perhaps for local students. But my business is making double reeds in quantity, using machine techniques."

Mr. Roscoe started making reeds as a boy when he was learning to play the oboe. "You take a very sharp knife and scrape away at the cane—the best kind comes from southern France—a little bit at a time, and you keep trying the reed in the oboe until you have the sound you want. It's quite an art."

With a \$5 investment in used straight razor blades, Mr. Roscoe started experimenting with ways to mechanize that art after leaving the Air Force Band in 1962. "I took my ideas to machinists. They told me there was no way to make the kind of machines I wanted, and even if they could make what I wanted, the machines wouldn't do what I wanted them to do."

"Fellow oboe players told me that you couldn't make double reeds by machine—that they have to be made by hand, one at a time."

Inventive people are accustomed to hearing that can't-be-done refrain. Mr. Roscoe, through persistence, showed that the refrain was more sound than substance in this case. His shop is a collection of unique machines, calibrated



Mr. Roscoe tests one of his reeds.

ed to the hundredth of a millimeter, that cut, scrape, smooth, and shape pieces of raw cane into finished reeds. The machines produce up to 500 reeds a day, each tested in an oboe or bassoon to ensure perfect pitch.

"When I started this business," says Mr. Roscoe, "my friends told me I'd probably go broke in a year. Well, we've had our share of setbacks—fire, flood, IRS, and OSHA, too—but we're going strong. Anything can be done, if people want to do it badly enough." •

Temporary Help for Firms Is Permanent Job

Wilma Cheely's husband was of the old school. "He didn't want me to go into business when I asked him to lend me \$1,000," she says. "But it was his company that needed temporary help, and Atlanta had no such thing."

It does now. Temporary Office Personnel Service, Inc., nicknamed Tops, began 25 years ago "in bedlam," says Ms. Cheely, who is founder, president, and sole owner. She sent a one-page brochure to 1,000 companies in the Atlanta area, placed a classified ad directed to housewives, teachers, and students willing to do temporary work, rented three rooms, put in two phones, and obtained a business license and bonding.

"On Monday, July 6, I took one of my twin daughters—they had both started high school—to the office. I had expected that the business would build up gradually, but that first day the phones never stopped ringing."

"Atlanta was really ready for temporary service. When I went home that night, I was hoarse from explaining the service to prospective clients and interviewing prospective temps."

Like learning to swim from fear of drowning, Ms. Cheely plunged in. She had had no experience in running a business—her background was psychology and dental hygiene, which she practiced for two years before marriage. Yet, by the end of 1953, she had turned a small profit and now has billings of more than \$1 million a year.

"This is a service business," says Ms. Cheely, "and I just love helping people. We are serving two people at the same time, the temp who wants and needs to work, and the company staff who need the help. You do best what you love to do."

Ms. Cheely is quick to squelch the unenlightened thought that temporary workers might be considered just warm bodies. "Oh, no," she says emphatically. "You have to be sharper than average to be a temp. You have to catch on quickly; people don't want to have to tell you but once. As you go from office to office, you have to be able to fit into any situation. The sharper a person you are, the better temp you will make."

Some people make temporary work a permanent job. "It's flexible," says Ms. Cheely. "About half of our people are footloose and fancy-free. They don't like being tied down to a permanent job. They want to work when they want to and to take off when they want to. Some people are new to the city and do temp work while getting established and hunting for jobs. Others are students or young mothers reentering the work force."

The most important attribute in a temp is the skill she—or he—is hired for. Ms. Cheely employs eight personnel coordinators who ensure that the temp is completely qualified to be sent out as a typist, secretary, lab technician, key-punch operator, receptionist, or whatever.

"Never send any surprises," Ms. Cheely tells her people. "If they ask for a secretary, and all you have available immediately is a clerk-typist, explain the problem. More often than not, the client will be willing to write out his letters or dictate slowly to a typist."

Ms. Cheely explains that she is a

businesswoman, but not a women's liber. She feels that a woman can be successful in business and in the home as a wife and mother. "There's no reason why you can't combine the two," says Ms. Cheely. "It's rough, but you can do it."

"I've been on boards of directors that are all male, and I've just been one of them. When I walk in, they stand up, and I say, 'Thanks, fellas, I appreciate that.' If that's discrimination, I'll take it." •



Dennis Heffner flashes a Hi Sign.

Signs That Give You a Lift

Dennis Heffner projects this scenario: It is 5:58 p.m., and you are snugly sandwiched in three lanes of immovable commuters, listening idly to the radio, wondering yet again why you endure this daily frustration. Suddenly, a passenger in the car to your left flashes a sign saying: "Smile."

"And you do," says Mr. Heffner. "You can't help but smile."

The thought makes Mr. Heffner smile all the way to the bank. The sign is a product of the firm he and a partner founded a year ago in Los Gatos, Calif., and more than 70,000 of them have been sold so far.

Called the Hi Sign, it is a red rectangular paddle, with a handle and indexed flip cards that bear social icebreakers such as "Hi," "You're Cute," "Stay Cool," "Let's Talk," and "Thanks." Other messages are more practical: "Help," "Blinker," "Gas," or "Flat." A pencil snaps into the sign's handle so that drivers and passengers can write their own messages on blank cards.

Says Mr. Heffner: "The Hi Sign is the poor man's citizens band radio. You may

NATION'S BUSINESS • JULY 1978



Wilma Cheely (seated third from left) says her temps are sharper than most.

not be able to afford a CB, but \$4.95 won't break anyone."

The Hi Sign, which is produced by handicapped people at the Hope Rehabilitation Center in San Jose, Calif., is the first product of the new company, called Trick Stuff Enterprises. Now in the planning stages are a liquor-making kit and a kit for transferring artwork and lettering to clothing.

Who needs a Hi Sign? "Everybody," says Mr. Heffner. "You pass people all the time on the road, but nobody pays any attention to anybody except when you have an accident. This gimmick creates good feelings. It gives people a lift."

Isn't the distraction dangerous? "Not really," says Mr. Heffner. "It is no more dangerous than turning on the radio, lighting a cigarette, or reading the billboards."

"Besides, the Hi Sign is not limited to driving. It can be used when you're jogging, people-watching, or whatever." •

Comeback for Clay on Roofs?

Edward E. Ryser has a message for modern architects: Ludowici lives.

The name was once as well-known among architects as Xerox is today among office workers. It stood for the finest quality clay roofing tiles that money could buy. But with the advent of what Mr. Ryser calls construction of "licky-tacky little boxes," the name and the tiles fell into disuse.

Mr. Ryser, who is operations manager of Ludowici's oldest and only remaining factory, located in New Lexington, Ohio, says that "today's architects are not accustomed to thinking in terms of clay tiles for roofs. We have to help them rediscover Ludowici, to think of tiles as a viable roofing method."

He concedes that not every building is going to have a tile roof. "We don't build for permanence in this country," he says, "but we do want some buildings to be permanent. If you're going to spend \$150,000 on a new home, you might as well spend a little extra for a roof that will last 50 to 100 years."

That kind of durability is demonstrated by the Barnard Street School in Savannah, Ga. It was built in 1906, and the tiles are now being removed to replace the felt, sheathing, and nails underneath. The tiles, Ludowici of course, will then be put back on the roof.

Making clay tiles has not changed much since artisans along the Euphrates River mixed mud with straw and bent the result over their thighs 5,000 years ago. The Ludowici family got into the business in the 17th century in Rome and brought the craft to the United States toward the end of the 19th century.

The family took over another clay-tile maker, Celadon, and enjoyed a firestorm of sales during the 1930's and early 1940's. But World War II and declining family interest in the business combined to push Ludowici into gradual obscurity. In 1976, CSC, Inc., a Chicago marketing firm, bought the factory and began the reformation.

The raw material of the tile is not clay, but shale that abounds around New Lexington. "It looks like dirt," says Mr. Ryser. "Shale and clay contain the same minerals, but clay is alluviated, which means it usually was deposited by rivers. The shale is sedimentary and is found in old seabeds."

"In making tile, the shale is crushed to the size of ground pepper, and then a chemical is added to tie up the sulfates so you don't get white scum on the face of the tile."

The shale is fed into an extruding machine or pressed into shape and then fired. The firing produces the muted red color of oxidized iron.

Ludowici tiles crown the dome of the Shrine of the Immaculate Conception in Washington, D. C. You will also find them in New York City on the Empire State Building, at Rockefeller Center, and the United Nations embassy buildings; on the Old Federal Courts Building in St. Paul, Minn.; at Ft. Conde in Mobile, Ala.; and on many McDonald's fast food outlets in the South and West.

"Clay tiles are ideal for the intense,

prolonged heat of the southern part of the United States," says Mr. Ryser. "We fire them to 2,100 degrees Fahrenheit, and that hardens them so they can withstand the heat. It also produces about three percent porosity, which means they are vitreous and will not absorb water. So they work well in freezing and thawing weather, too."

Although Ludowici produces the common Spanish tile as a stock item, most of its work comes from custom orders, such as orders for a tile that looks exactly like a wood shake.

"Tiles like that were made for the old glassmaking house during the restoration of Jamestown, Va.," says Mr. Ryser. "They wanted the permanence of tile but the appearance of wood. It seems a little odd to be making tiles that look like something else. But it's part of the clay tile comeback, 5,000 years later." □



Edward Ryser (below) says making the vividly colored tiles that top the Immaculate Conception Shrine was a unique challenge.



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A LOOK AHEAD FROM WASHINGTON

New Fed Chairman's Eight-Point Plan for a Stronger Economy

The economic views of G. William Miller, the new chairman of the Federal Reserve Board, are being given weighty consideration in the White House. So his eight-point plan to achieve a stronger economy, including a lowering of inflation, may be a blueprint for the future.

At a recent appearance at the National Press Club in Washington, Mr. Miller pulled together a number of proposals he has made in the past and tossed them out for consideration.

- Balance the federal budget by fiscal 1982.
- Reduce government spending from the current 22 percent of the gross national product to 20 percent—an annual saving of between \$50 billion and \$75 billion.
- Seek a substantial increase in fixed investment because the U. S. "has been neglecting its capital base." One technique—liberalize depreciation for business expansion.
- Increase housing starts over the next five years by 75,000 to 100,000 units annually.
- Increase exports from seven to ten percent of the gross national product.
- Provide additional tax reductions for individuals, consistent with a balanced budget.
- Press for regulatory reform.
- Establish a firm commitment to reduce the inflation rate by one half to three quarters of one percent a year over the next several years.

Mr. Miller said that full employment, price stability, and a sound dollar can all be achieved. He called for a conscious shift to emphasize investment for the future and said resources and "more spending decisions" should be shifted from the public to the private sector.

And he had good news for business—he ruled out the possibility that the administration will seek wage and price controls, saying: "They won't work, and they won't be imposed."

Dole Bill Proposes Greater Protection Against Searches

While the media made the most immediate and vigorous objections to the recent Supreme Court decision expanding the use of search warrants to seize the private papers of a person not suspected of a

crime, others are now actively joining in the protest.

This stems from recognition of a potential for widespread abuses. Not only a newspaper office, but business offices and homes could be searched under the new principle of law handed down by the court in the case of *Zurcher vs. "Stanford Daily."*

Accordingly, Sen. Robert J. Dole (R-Kans.) has introduced S. 3162, the Personal Privacy Act of 1978, which would amend existing statutes to cover situations in which search warrants are issued for premises not occupied by criminal suspects.

In the recent decision, the court held that law enforcement authorities may enter and search the premises of a newspaper with a warrant issued upon probable cause that the newspaper has criminal evidence in its possession.

Sen. Dole contends this decision does not comply with the Fourth Amendment, which protects against unreasonable search and seizure.

The proposed legislation would require that a prior adversary court hearing be conducted before a warrant is issued if the person is not a criminal suspect.

Exceptions to this requirement would be if the person seeking a search warrant can convince the court that the subject of the warrant has committed or is committing a criminal offense or that there is reason to believe that giving prior notice of a search would lead to attempts to conceal, destroy, or alter items to be seized or would otherwise substantially interfere with the conduct of the investigation.

U. S. Population Grows Older

If age is a factor in your marketing plans, you should know that the U. S. population is continuing to grow older.

New data from the Commerce Department's Bureau of the Census shows the median age has inched up to 29.4 years. That is what it was in 1960. The nation's population grew younger after that, and the median age was down to 27.9 years in 1970 and 1971. Then a slow rise began.

Not only is the median age on the rise, but so is the number of 24 to 35-year-olds. This age group grew the fastest between 1970 and 1977, increasing a robust 31.8 percent.

Meanwhile, the 35-to-54 age group increased only one percent, while the 65-and-older group increased 17.6 percent.

SBA Film Financing Code Bars Sex, Politics, and Religion

The Small Business Administration is taking a hard line on pornography, politics, and religion.

Normally, the agency doesn't get involved in the design or distribution of a product. But a recent SBA decision to establish a limited number of small business investment companies which could finance or invest in movie production or distribution prompted the agency to restrict funding of production or distribution of X-rated and unrated films and those with themes predominantly political or religious in nature.

Potential loan customers, says SBA, objected that a blanket prohibition against X-rated films could eliminate films which were serious and creative, yet not pornographic, and that a determination that a film is predominantly religious or political would be open to controversy.

SBA, obviously recognizing the potential for out-raging taxpayers, stood firm.

Union Expansion Slowing Among Government Workers

There are signs that unionization of state and local government employees may have peaked and that unions, in order to increase their memberships of public workers, now pirate from each other.

Getting reliable, current statistics is a difficult task, but the latest Census Bureau and Labor Department tabulations show that, while there was a slight rise in the number of state and local government employees in 1976 compared to 1975, the number of full-time union members among them didn't materially change.

According to the Census Bureau, there were 9.4 million full-time employees in 1975 and 9.5 million in 1976; however, union membership stood at approximately 4.7 million during both years.

Federal officials point out that various union claims of rapidly increasing numbers do not necessarily indicate more union members overall, but can mean merely switches in organizations.

GAO Recommends Evaluating Administrative Law Judges

Opponents of lifetime jobs for judges have gained hope from a stand taken by the General Accounting Office. GAO has recommended that Congress fashion a more effective way to periodically evaluate the performance of administrative law judges, who, like federal judges, have almost automatic tenure.

There are 1,025 ALJ's—twice the number of federal judges. They conduct hearings and make decisions in a variety of areas, such as labor-management, occupational safety, and interstate commerce, which

have a major impact on business. In all, they are found in 28 federal agencies, which hire them and may review their decisions.

The Administrative Procedures Act of 1946 gave the Civil Service Commission the responsibility for evaluating their performance. However, says GAO, such evaluations are not common.

As a result, the watchdog arm of Congress says, the ALJ's have the independence they need, but many of them feel they are above any control by the agency they work for and should have the same freedom as federal judges.

Disagreeing, GAO recommends that Congress change the law to require periodic evaluations and establish an initial probationary period of three years to eliminate the present virtual guarantee that they will keep their jobs.

Uncle Sam to Help Farmers Meet Water Cleanup Goals

Farmers will be able to get some assistance from Washington in the days ahead to help them solve water pollution problems caused by animal wastes and the use of pesticides and fertilizers.

Under a joint Department of Agriculture-Environmental Protection Agency effort, farmers will be able to get the federal government to pay up to 50 percent of their cost of achieving water-quality goals set by the 1977 Clean Water Act Amendments. There will be some special cases in which farmers can get more than 50 percent funding.

The program, administered by Agriculture Department's Soil Conservation Service, is to have \$200 million for fiscal 1979 and \$400 million for 1980.

Contracts entered into by the Secretary of Agriculture, with the concurrence of the EPA administrator, may run from five to ten years.

OSHA Inspection: Do's and Don'ts

Here is an unusual publishing offer from the Chamber of Commerce of the United States—a stamped, self-addressed envelope, along with a simple letter, will bring you an update page for "What to Do About OSHA: Steps to Take Before, During, and After Inspection" (publication 5708), the authoritative compliance manual published by the National Chamber.

Ask for OSHA addendum No. 5822. It will tell you what the recent Supreme Court decision on OSHA search warrants means and what to do and what not to do. The updated edition of the book itself sells for \$5 each for one to nine copies; \$4 each for ten to 99 copies; and \$3.50 each for more than 100 copies. To order, send check payable to "Chamber of Commerce of the United States." Address: Data Processing, Chamber of Commerce of the U. S., 1615 H St. N. W., Washington, D. C. 20062. □

Still Fighting for Freedom —and Still Winning

THIS JULY is a particularly good time to talk about freedom.

There are trends under way in the nation that are directly connected to the forces that led to the declaration of American independence 202 years ago this month.

California voters fired the modern equivalent of "the shot heard 'round the world" when they decisively seized control of their own property tax system.

The overwhelming vote was more than just a protest against high real estate taxes. It was a forceful, clear-cut reminder that Americans have begun to draw the line on the tax-and-spending spiral, on the continuing growth of bureaucracy, on the proliferation of government programs that create more problems than they solve.

Freedom made gains in other ways in recent weeks. In separate rulings, the U. S. Supreme Court held that businesses, as well as individuals, are covered by the Constitution's First and Fourth Amendments.

In the First Amendment case, the court struck down a Massachusetts law that prohibited corporate spending designed to influence voters' decisions on issues that did not directly affect the operations or assets of the company.

Justice Lewis F. Powell, Jr., said in writing the majority decision:

"If the speakers here were not corporations, no one would suggest that the state could silence their proposed speech. It is the type of speech indispensable to decision-making in a democracy, and this is no less true because the speech comes from a corporation rather than an individual. The inherent worth of the speech in terms of its capacity for informing the public does not depend upon the identity of the source, whether corporation, association, union, or individual."

The court's decision in the Fourth Amendment case was particularly dramatic because the litigation began when one individual, the owner of a small business, stood upon his constitutional rights.

Ferrol G. (Bill) Barlow, who owns an electrical and plumbing business in Pocatello, Idaho, had refused to allow an inspector from the Occupational Safety and Health Administration to enter his shop without a search warrant.

In its majesty, the federal government insisted it needed no warrant and asked the courts to force Bill Barlow to admit OSHA inspectors without one.

The Supreme Court upheld Mr. Barlow. The majority decision by Justice Byron R. White said: "The authority to make warrantless searches devolves almost unbridled discretion upon executive and administrative officers . . . as to when to search and whom to search. A warrant, by contrast, would provide assurances from a neutral officer that the inspection is reasonable under the Constitution, is authorized by statute, and is pursuant to an administrative plan containing specific neutral criteria. . . ."

While the court indicated it would be relatively easy for an OSHA inspector to obtain a warrant, the significance of the decision stems from its affirmation that business premises, as well as homes, are protected by the Constitution from unreasonable searches.

Business, of course, continues to face many serious problems with the growth of government, taxes and spending, and oppressive regulations.

But as we celebrate the birth of American independence, it is nice to be able to celebrate the fact that Americans are still fighting for freedom—and still winning. □

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